1981–82 MISCELLANEOUS TAX BILLS, XIV

HEARING

BEFORE THE

SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

ON

S. 473, S. 474, S. 710, S. 1854, and S. 1923

APRIL 23, 1982

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1981-82 MISCELLANEOUS TAX BILLS, XIV

FRIDAY, APRIL 23, 1982

U.S. SENATE,
COMMITTEE ON FINANCE,
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT,
Washington, D.C.

The subcommittee met, pursuant to notice, at 8:58 a.m., in room 2221, Dirksen Senate Office Building, Hon. Bob Packwood (chairman of the subcommittee) presiding.

Present: Senators Packwood, Durenberger, and Matsunaga.

[The committee's press release announcing this hearing, the text of bills S. 473, S. 474, S. 710, S. 1854, and S. 1923, and the Joint Tax Committee's description follow:]

[Press Release No. 82-119]

FINANCE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT SETS HEARING ON FIVE MISCELLANEOUS TAX BILLS

Senator Bob Packwood, Chairman of the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance, announced today that the Subcommittee will hold a hearing on Friday, April 23, 1982, on five miscellaneous tax bills.

The hearing will begin at 9:00 a.m. in Room 2221 of the Dirksen Senate Office Building.

The following legislative proposals will be considered at the hearing:

S. 473

Introduced by Senator Durenberger for himself and others. S. 473 would provide that the amount of the charitable deduction allowable for expenses incurred in the operation of a motor vehicle will be determined in the same manner Government employees determine reimbursement for use of their vehicles on Government business.

S. 474

Introduced by Senator Durenberger. S. 474 would provide that the amount of the medical expense deduction allowable for expenses incurred in the operation of a motor vehicle will be determined in the same manner Government employees determine reimbursement for use of their vehicles on Government business.

S. 710

Introduced by Senator Durenberger for himself and others. S. 710 would provide a deferral for the payment of the manufacturer's excise tax on fishing tackle.

S. 1854

Introduced by Senator Durenberger for himself and others. S. 1854 would provide tax-exempt scholarship treatment for amounts received as National Research Service Awards under the Public Health Service Act of 1974.

S. 1923

Introduced by Senator Matsunaga. S. 1923 would generally allow joint ventures to use the annual accrual methods of accounting for corporations engaged in farming.

REQUESTS TO TESTIFY

Witnesses who wish to testify at the hearing must submit a written request to Robert E. Lighthizer, Chief Counsel, Committee on Finance, Room 2227 Dirksen Senate Office Building, Washington, D.C. 20510, to be received no later than noon on Friday, April 16, 1982. Witnesses will be notified as soon as practicable thereafter whether it has been possible to schedule them to present oral testimony. If for some reason a witness is unable to appear at the time scheduled, he may file a written statement for the record in lieu of the personal appearance. In such a case, a witness should notify the Committee of his inability to appear as soon as possible.

II

97TH CONGRESS
1ST SESSION

S. 473

To amend the Internal Revenue Code of 1954 to provide that the amount of the charitable deduction allowable for expenses incurred in the operation of a motor vehicle will be determined in the same manner Government employees determine reimbursement for use of their vehicles on Government business.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 6 (legislative day, JANUARY 5), 1981

Mr. DURENBERGER (for himself and Mrs. KASSEBAUM) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To amend the Internal Revenue Code of 1954 to provide that the amount of the charitable deduction allowable for expenses incurred in the operation of a motor vehicle will be determined in the same manner Government employees determine reimbursement for use of their vehicles on Government business.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 170 of the Internal Revenue Code of 1954 (relating to charitable deductions) is amended by redesignating subsections (h) and (i) as subsections (i) and (j), respectively, and by inserting after subsection (g) the following new subsection:

"(h) Amount of Deduction for Expenses of Operating a Motor Vehicle.—The amount allowable as a deduction under this section with respect to expenses incurred by the taxpayer for the operation of a motor vehicle shall be equal to the amount the taxpayer would have received if the taxpayer were engaged on official business for the Government and reimbursed under section 5704 of title 5.".

(b) The amendment made by subsection (a) shall apply with respect to the operation of a motor vehicle occurring after the date of the enactment of this Act in taxable years ending after such date.

97TH CONGRESS
1ST SESSION

S. 474

To amend the Internal Revenue Code of 1954 to provide that the amount of the medical expense deduction allowable for expenses incurred in the operation of a motor vehicle will be determined in the same manner Government employees determine reimbursement for use of their vehicles on Government business.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 6 (legislative day, JANUARY 5), 1981

Mr. DURENBERGER introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To amend the Internal Revenue Code of 1954 to provide that the amount of the medical expense deduction allowable for expenses incurred in the operation of a motor vehicle will be determined in the same manner Government employees determine reimbursement for use of their vehicles on Government business.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 213 of the Internal Revenue Code of 1954 (relating to medical expense deductions) is amended by inserting after subsection (f) the following new subsection:

"(g) AMOUNT OF DEDUCTION FOR EXPENSES OF OPERATING A MOTOR VEHICLE.—The amount allowable as a deduction under this section with respect to expenses incurred by the taxpayer for the operation of a motor vehicle shall be equal to the amount the taxpayer would have received if the taxpayer were engaged on official business for the Government and reimbursed under section 5704 of title 5.".

(b) The amendment made by subsection (a) shall apply with respect to the operation of a motor vehicle occurring after the date of the enactment of this Act in taxable years ending after such date.

II

97TH CONGRESS
1ST SESSION

S. 710

Relating to a fishing tackle excise tax.

IN THE SENATE OF THE UNITED STATES

MARCH 12 (legislative day, FEBRUARY 16), 1981

Mr. DURENBERGER (for himself, Mr. BOREN, Mr. CHAFEE, Mr. DANFORTH, and Mr. PERCY) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

Relating to a fishing tackle excise tax.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 6302 of the Internal Revenue Code of 1954 (relating to mode or time of collecting tax) is amended by redesignating subsection (d) as subsection (e) and by inserting after subsection (c) the following new subsection:

"(d) TIME FOR PAYMENT OF MANUFACTURERS EXCISE TAX ON RODS, CREELS, ETC.—The tax imposed by section 4161(a) (relating to manufacturers excise tax on rods, creels, etc.) shall be due and payable—

"(1) in the case of articles sold during the quarter ending December 31, on March 31,

"(2) in the case of articles sold during the quarter ending March 31, on June 30,

"(3) in the case of articles sold during the quarter ending June 30, on September 24, and

"(4) in the case of articles sold during the quarter ending September 30, at such time as the Secretary may by regulations prescribe.".

(b) EFFECTIVE DATE.—The amendment made by subsection (a) shall apply to articles sold on or after the first day of the first calendar quarter beginning after the date of the enactment of this Act.

97TH CONGRESS
1ST SESSION

S. 1854

To make permanent the exclusion from gross income of national research service awards.

IN THE SENATE OF THE UNITED STATES

NOVEMBER 17 (legislative day, NOVEMBER 2), 1981

Mr. DURENBERGER (for himself, Mr. BAUCUS, Mr. HATCH, Mr. BRADLEY, Mr. HEINZ, and Mr. DANFORTH) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To make permanent the exclusion from gross income of national research service awards.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That paragraph (2) of section 161(b) of the Revenue Act of 1978 (relating to exclusion from gross income for national research service awards) is amended by striking out "during calendar years 1974 through 1980" and inserting in lieu thereof "after December 31, 1973".

97TH CONGRESS
1ST SESSION

S. 1923

To amend the Internal Revenue Code of 1954 to provide that certain provisions relating to annual accrual method of accounting for corporations engaged in farming be extended to corporate joint ventures, and for other purposes.

IN THE SENATE OF THE UNITED STATES

DECEMBER 9 (legislative day, NOVEMBER 30), 1981

Mr. MATSUNAGA introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To amend the Internal Revenue Code of 1954 to provide that certain provisions relating to annual accrual method of accounting for corporations engaged in farming be extended to corporate joint ventures, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That (a) section 447(g) of the Internal Revenue Code of 1954 (relating to certain annual accrual accounting methods) is amended—

(1) by inserting "or qualified partnership" after "corporation" each place it appears in paragraph (1), and

(2) by adding at the end thereof the following new paragraph:

"(4) QUALIFIED PARTNERSHIP DEFINED.—For purposes of this subsection, the term 'qualified partnership' means a partnership each of the partners of which is a corporation other than—

"(A) an electing small business corporation (within the meaning of section 1371(b)), or

"(B) a personal holding company (within the meaning of section 542(a)).".

(b) Paragraph (3) of section 447(g) of such Code (relating to certain reorganizations) is amended to read as follows:

"(3) CERTAIN NONRECOGNITION TRANSFERS.—For purposes of this subsection, if—

"(A) a corporation acquired substantially all the assets of a farming trade or business from another corporation in a transaction in which no gain or loss was recognized to the transferor or transferee corporation, or

"(B) a qualified partnership acquired substantially all the assets of a farming trade or business from one of its partners in a transaction to which section 721 applies,

the transferee corporation or qualified partnership shall be deemed to have computed its taxable income on an annual accrual method of accounting during the period for which the transferor corporation or partnership computed its taxable income from such trade or business on an annual accrual method.".

(c) The amendments made by this section shall apply to taxable years beginning after December 31, 1981.

DESCRIPTION OF TAX BILLS

(S. 473, S. 474, S. 710, S. 1854, and S. 1923)

SCHEDULED FOR A HEARING

BEFORE THE

SUBCOMMITTEE ON TAXATION AND

DEBT MANAGEMENT

OF THE

COMMITTEE ON FINANCE

ON APRIL 23, 1982

INTRODUCTION

The bills described in this pamphlet have been scheduled for a public hearing on April 23, 1982, by the Senate Finance Subcommittee on Taxation and Debt Management.

There are five bills scheduled for the hearing: (1) S. 473 (charitable expense deduction for use of personal vehicle); (2) S. 474 (medical expense deduction for use of personal vehicle); (3) S. 710 (postponement of time for paying excise tax on fishing equipment); (4) S. 1854 (exclusion from income of National Research Service Awards); and (5) S. 1923 (relating to annual accrual method of accounting).

The first part of the pamphlet is a summary of the bills. This is followed by a more detailed description of the bills, including present law, issues, explanation of provisions, effective dates, and estimated revenue effects.

I. SUMMARY

1. S. 473—Senator Durenberger, et al.

Charitable Expense Deduction for Use of Personal Vehicle

Under present law, individual taxpayers who itemize their deductions may deduct charitable contributions up to certain limits (sec. 170). In determining the amount of their charitable contribution deduction, taxpayers may deduct their actual expenses for gas and oil for an automobile used to provide services to a charitable organization, or may use a standard rate of 9 cents a mile.

Under the bill, taxpayers would be allowed to use the standard mileage rates that government employees use to determine reimbursement for use of their vehicles on government business (presently, 20 cents a mile for use of an automobile). The bill would apply after the date of enactment.

2. S. 474—Senator Durenberger

Medical Expense Deduction for Use of Personal Vehicle

Under present law, individual taxpayers who itemize their deductions may deduct the amount of their medical expenses which exceeds three percent of their adjusted gross income (sec. 213). Taxpayers may deduct as medical expenses their actual expenses for gas and oil for an automobile used for medical reasons, or may use a standard rate of 9 cents a mile.

Under the bill, taxpayers would be allowed to use the standard mileage rates that government employees use to determine reimbursement for use of their vehicles on government business (presently, 20 cents a mile for use of an automobile). The bill would apply after the date of enactment.

3. S. 710—Senators Durenberger, Boren, Chafee, Danforth, and Percy

Postponement of Time for Paying Excise Tax on Fishing Equipment

Present law imposes a 10-percent excise tax on the sale of fishing rods, creels, reels, and artificial lures, baits, and flies by the manufacturer, producer, or importer thereof (sec. 4161(a)). This tax generally is payable relatively soon after the fishing equipment is sold.

The bill would postpone the time for payment of the excise tax on fishing equipment until March 31, June 30, and September 24 for calendar quarters ending on December 31, March 31, and June 30, respectively. Tax for the quarter ending September 30 would be payable on a date prescribed by Treasury Department regulations.

The provisions of the bill would apply to articles sold in the first quarter beginning after the date of enactment of the bill and in all subsequent periods.

4. S. 1854—Senators Durenberger, Baucus, Hatch, Bradley, Heinz, and Danforth

Exclusion From Income of National Research Service Awards

Under present law, amounts received as scholarships and fellowship grants generally are excluded from gross income (sec. 117). However, if such grants constitute compensation for past, present, or future services for the grantor, they are not excludable, except in the case of certain Federal grants where the recipient agrees to perform future services as a Federal employee. In 1977, the Internal Revenue Service ruled that National Research Service Awards were compensation for services and not excludable as scholarships or fellowship grants.

The Revenue Act of 1978 provided that income from National Research Service Awards made through 1979 would be treated in the same manner as excludable scholarships or fellowship grants. This treatment was extended (in P.L. 96–167 and P.L. 96–541) to awards made through 1981.

This bill would make permanent the exclusion from gross income under the scholarship provisions for National Research Service Awards.

5. S. 1923—Senator Matsunaga

Allow Corporate Joint Ventures to Use Annual Accrual Method of Accounting for Corporations Engaged in Farming

Under present law, corporations (and partnerships with a corporate partner) engaged in the business of farming generally are required to use the accrual accounting method with capitalization of preproductive period expenses (sec. 447). However, certain corporations engaged in the growing of crops that are harvested at least 12 months after planting (such as sugarcane) are permitted to use the "annual" accrual method of accounting if they, or a predecessor corporation, have continuously used the annual accrual method generally since 1967. Under the annual accrual method, preproductive period expenses are not capitalized, but are deducted currently. The annual accrual method cannot be used by a partnership in which a corporation is a partner.

Under the bill, if a corporation that is allowed to use the annual accrual method for a farming business contributes the business to a "qualified partnership" in exchange for an interest in the partnership, the qualified partnership would be allowed to use the annual accrual method for that business. A qualified partnership would be a partnership of which each partner is a corporation other than a subchapter S corporation or a personal holding company. The provisions of the bill would apply to taxable years beginning after December 31, 1981.

II. DESCRIPTION OF THE BILLS

1. S. 473—Senator Durenberger, et al.*

Charitable Expense Deduction for Use of Personal Vehicle

Present law

Under present law (sec. 170(a)), individual taxpayers who itemize their deductions may deduct charitable contributions made to qualified organizations, subject to certain limitations.

Individuals who do not itemize deductions may also deduct charitable contributions, subject to limitations. For 1982 and 1983, the deduction is limited to 25 percent of the first $100 of contributions, or a maximum deduction of $25. For 1984, the contribution limit is raised to $300, or a maximum deduction of $75. For 1985, the deduction is allowed for 50 percent of contributions, with no dollar limit, and for 1986 the deduction is allowed for 100 percent of contributions (subject to the general limitations). This provision expires after 1986.

Under present law, taxpayers may deduct unreimbursed out-of-pocket expenses made incident to the rendition of services provided to a charitable organization, such as expenses for gas or oil for an automobile (Treas. Reg. § 1.170 A-1(g)). In determining the amount of the contribution deduction attributable to the operation of an automobile, taxpayers may deduct their actual expenses, or, for 1981, may use a standard rate of 9 cents a mile.[1] In either case, taxpayers may also deduct parking fees and tolls, but may not deduct general repair or maintenance expenses, depreciation, or insurance.

Issue

The issue is whether the standard mileage rate used to determine the amount of a taxpayer's charitable contribution deduction for the use of a motor vehicle should be the rate government employees are reimbursed for use of their vehicles on government business.

Explanation of the bill

Under the bill, taxpayers would determine the amount of their charitable contribution deduction for the use of a motor vehicle under the same mileage rate that government employees use to determine reimbursement for use of their vehicles on government business (presently, 20 cents a mile for the use of an automobile).[2]

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*Cosponsors are Senators Kassebaum, Cranston, Boschwitz, Kasten, and DeConcini.

[1] This rate was determined by the Internal Revenue Service. Rev. Proc. 80-7, 1980-1 C.B. 590, as modified by Rev. Proc. 80-32, 1980-2 C.B. 767. The IRS, for 1981, allows a deduction of 20 cents a mile for the first 15,000 miles of a business use and 11 cents a mile for each additional mile.

[2] This rate was determined by the Government Services Administration pursuant to section 5704 of title 5, U.S. Code. 46 Fed. Reg. 58315 (Dec. 1, 1981).

Effective date

The provisions of the bill would apply with respect to the operation of a motor vehicle occurring after the date of the enactment of the bill, in taxable years ending after such date.

Revenue effect

It is estimated that the bill would reduce fiscal year budget receipts by $7 million in 1982, $55 million in 1983, $102 million in 1984, $115 million in 1985, and $135 million in 1986.

2. S. 474—Senator Durenberger

Medical Expense Deduction for Use of Personal Vehicle

Present law

Under present law (sec. 213(a)), individual taxpayers who itemize their deductions may deduct the amount of their medical expenses which exceeds three percent of their adjusted gross income. Payments for transportation primarily for and essential to medical care qualify as medical expenses. Such transportation expenses include amounts paid for bus, taxi, train or plane, or for ambulance hire.

In determining the amount of transportation expenses which qualify as medical expenses, taxpayers may include amounts paid for out-of-pocket expenses for use of an automobile, such as gas and oil, or may use, for 1981, a standard rate of 9 cents a mile[1] for each mile an automobile is used for medical reasons. Parking fees and tolls may be included, but general repair and maintenance expenses, depreciation, and insurance may not be included.

Issue

The issue is whether the standard mileage rate used to determine the amount of the medical expense deduction for the use of a motor vehicle should be the rate government employees are reimbursed for use of their vehicles on government business.

Explanation of the bill

Under the bill, the amount of the medical expense deduction allowable for expenses for the use of a motor vehicle would be the same mileage rate that government employees use to determine reimbursement for use of their vehicles on government business (presently, 20 cents a mile for the use of an automobile).[2]

Effective date

The provisions of the bill would apply with respect to the operation of a motor vehicle occurring after the date of the enactment of the bill in taxable years ending after such date.

Revenue effect

It is estimated that the bill would reduce fiscal year budget receipts by $3 million in 1982, $22 million in 1983, $38 million in 1984, $41 million in 1985, and $46 million in 1986.

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[1] This rate was determined by the Internal Revenue Service. Rev. Proc. 80-7, 1980-1 C.B. 590, as modified by Rev. Proc. 80-32, 1980-2 C.B. 767. The IRS, for 1981, allows a deduction of 20 cents a mile for the first 15,000 miles of business use and 11 cents a mile for each additional mile.

[2] This rate was determined by the Government Services Administration pursuant to section 5704 of title 5, U.S. Code. 46 Fed. Reg. 58315 (Dec. 1, 1981).

3. S. 710—Senators Durenberger, Boren, Chafee, Danforth, and Percy

Postponement of Time for Paying Excise Tax on Fishing Equipment

Present law

Under present law, a 10-percent excise tax is imposed upon the sales price of fishing rods, creels, reels, and artificial lures, baits, and flies (including parts or accessories of such articles sold on or in connection therewith, or with the sale thereof) by the manufacturer, producer, or importer (sec. 4161(a)).

Treasury Department regulations require returns of manufacturers excise taxes, including the tax on the sale of fishing equipment, to be filed quarterly, unless the Internal Revenue Service requires more frequent filing by an individual taxpayer (Treas. Reg. § 48.6011(a)-1). Quarterly returns are due on the last day of the first month after the quarter ends (Treas. Reg. § 48.6071(a)-1).

Although returns generally are filed on a quarterly basis, the regulations require monthly, or semimonthly, payment of the tax in certain cases (Treas. Reg. § 48.6302(c)-1). If an individual is liable in any month for more than $100 of manufacturers excise tax and is not required to make semimonthly deposits, the individual must deposit the amount on or before the last day of the next month at an authorized depository or at the Federal Reserve Bank serving the area in which the individual is located.

If an individual had more than $2,000 in manufacturers excise tax liability for any month of a preceding calendar quarter, such taxes must be deposited for the following quarter (regardless of amount) on a semimonthly basis. The taxes must be deposited by the ninth day following the semimonthly period for which they are deposited. In addition, if the semimonthly period is in either of the first two months of the quarter, any underpayment of excise taxes for a month must be deposited by the ninth day of the second month following such month. Underpayments in the third month of the quarter must be deposited by the end of the following month.

No special rules are provided to defer payment of the excise tax with respect to sales of taxable articles on credit.

Issue

The issue is whether the time for payment of excise taxes imposed the sale of fishing equipment should be postponed.

Explanation of the bill

The bill would amend present law to require payment of the excise tax on fishing equipment on a quarterly basis, as follows:

(1) March 31, in the case of articles sold during the quarter ending the previous December 31;

(2) June 30, in the case of articles sold during the quarter ending the previous March 31;

(3) September 24, in the case of articles sold during the quarter ending the previous June 30; and

(4) On a date prescribed in Treasury Department regulations in the case of articles sold during the quarter ending September 30.

The bill would not change the present time for filing returns of manufacturers excise taxes or the time for payment of such taxes on articles other than fishing equipment.

Effective date

The provisions of the bill would apply to fishing equipment sold by manufacturers, producers, or importers on or after the first day of the first calendar quarter beginning after the date of enactment of the bill.

Revenue effect

The bill would not affect the aggregate fiscal year receipts of the manufacturers excise tax on fishing equipment.

4. S. 1854—Senators Durenberger Baucus, Hatch, Bradley, Heinz, and Danforth

Exclusion From Income of National Research Service Awards

Present law

Present law, subject to several limitations, provides that gross income does not include amounts received as a scholarship at an educational institution or as a fellowship grant (sec. 117). In general, amounts received from scholarships or fellowship grants are not excludable from gross income if they constitute compensation for past, present, or future services for the grantor. However, amounts received under Federal programs are not disqualified for exclusion merely because the individual recipients agree to perform future services as Federal employees.

The amount excludable as a scholarship or fellowship varies depending on whether the individual recipient is or is not a candidate for a degree. In general, a degree candidate may exclude the entire amount of the scholarship or fellowship grant, unless any portion of the award is regarded to be payment for services in the nature of part-time employment. An individual who is not a candidate for a degree is limited to an exclusion of $300 per month for a period of 36 months.

In 1977, the Internal Revenue Service ruled that awards made under the provisions of the National Research Service Awards Act of 1974 to individuals who, in return for receiving the awards, must subsequently engage in health research or teaching or some equivalent service and must allow the Government to make royalty-free use of any copyrighted materials produced as a result of the research are not excludable scholarships or fellowship grants.[1]

The Revenue Act of 1978 provided that amounts received as National Research Service Awards would be treated as excludable scholarships or fellowship grants under sec. 117. This provision was effective for awards made during calendar years 1974 through 1979. This treatment was extended to awards made in 1980 by Public Law 96–167 and to awards made in 1981 by Public Law 96–541, pending further study.

Issue

The issue is whether the tax treatment of National Research Service Awards as excludable scholarships or fellowship grants should be made permanent.

Explanation of the bill

The bill would treat amounts received as National Research Service Awards after 1981 as amounts received as excludable scholarships or fellowship grants under sec. 117.

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[1] Rev. Rul. 77–319, 1977–2 C.B. 48.

Effective date

The provisions of the bill would be effective on enactment.

Revenue effect

It is estimated that the bill would reduce fiscal year budget receipts by $4 million in 1982, $8 million in 1983, $8 million in 1984, $8 million in 1985, and $8 million in 1986.

5. S. 1923—Senator Matsunaga

Allow Corporate Joint Ventures to Use Annual Accrual Method of Accounting for Corporations Engaged in Farming

Present law

Under present law, the taxable income from farming of a corporation (or a partnership of which a corporation is a partner) generally must be computed using the accrual method of accounting with the capitalization of preproductive period expenses (sec. 447(a)). Preproductive period expenses are expenses (other than interest, taxes, or losses from casualty, drought, or disease) attributable to property having a crop or a yield that are incurred during the preproductive period of such property. The preproductive period for property is generally the period before the disposition of the property or the first marketable crop or yield from the property.

This requirement, however, does not apply to subchapter S corporations, family corporations, or small corporations that meet a gross receipts test. Such corporations, and partnerships which have no other type of corporation as a partner, may use the cash method of accounting and may deduct preproductive period expenses when they are paid. The requirement to use the accrual method with the capitalization of preproductive period expenses also does not apply to the business of operating a nursery or a sod farm or the business of forestry or the growing of timber.

A special rule provides that certain corporations may use the "annual" accrual method of accounting (sec. 447(g)). Under the annual accrual method of accounting, preproductive period expenses are not capitalized, but are deducted currently. Corporations that qualify for this special rule are corporations that raise crops (such as sugar cane) which are harvested at least 12 months after planting. In addition, the corporation must have used the annual accrual method for the 10-year period ending with its first taxable year beginning after 1975, and must have continued to use such method for each taxable year after its first taxable year beginning after 1975.

In the case of a corporation that acquired substantially all the assets of a farming trade or business from another corporation in a transaction in which neither corporation recognized any gain or loss, the acquiring corporation is treated as having used the annual accrual method for the period such method was used by the predecessor corporation to compute the taxable income from the acquired farming business.

Issue

The issue is whether the annual accrual accounting method should be allowed to a qualified partnership when a corporation that uses the annual accrual method contributes its farming business to the partnership in exchange for an interest in the partnership.

Explanation of the bill

Under the bill, a "qualified partnership" generally would be treated the same as a corporation for purposes of the annual accrual accounting rules of section 447(g). Under the bill, a qualified partnership is defined as a partnership in which each partner is a corporation other than a subchapter S corporation or a personal holding company. The qualified partnership would have to meet the same general requirements that apply to corporations under present law. Thus, for example, the qualified partnership would have to be engaged in a farming business in which crops are raised that are harvested at least 12 months after planting.

The qualified partnership would also have to meet the requirement relating to continuous use of the annual accrual method. For this purpose, the bill provides a special rule analogous to the rule for transfers of a farming business from one corporation to another corporation. Under the special rule, if a partner of a qualified partnership has contributed a farming business to the partnership in exchange for a partnership interest, the qualified partnership would be treated as having used the annual accrual method for any period the contributing partner had used such method to compute its taxable income from the business.

Thus, for example, if a corporation that is permitted to use the annual accrual method with respect to a farming business contributes substantially all of the assets of the business to a qualified partnership in exchange for an interest in the partnership, the qualified partnership would be permitted to use the annual accrual method to compute the taxable income from the business.

Effective date

The provisions of the bill would apply to taxable years beginning after December 31, 1981.

Revenue effect

The bill is estimated to result in an insignificant revenue loss.

Senator PACKWOOD. The committee will come to order.

We have five miscellaneous tax bills before us today.

I would ask the witnesses to keep their statements to 5 minutes, their entire testimony will be put in the record. We have as our first witness today David Glickman, the Deputy Assistant Secretary for Tax Policy.

Good to have you with us again.

STATEMENT OF DAVID G. GLICKMAN, DEPUTY ASSISTANT SECRETARY FOR TAX POLICY, DEPARTMENT OF THE TREASURY

Mr. GLICKMAN. Thank you, Mr. Chairman. I am pleased to have an opportunity to present the Treasury's views with respect to the five bills that are pending before your subcommittee today.

At the outset let me say that since my statement, as you said, will be included in the record, I will just paraphrase.

Senator PACKWOOD. Good. The entire statement of every witness will be in the record.

Mr. GLICKMAN. At the outset, I would like to emphasize that our position on each of these bills is strongly influenced by this administration's commitment to the proposition that the best means of providing tax relief is through general rate reduction and other measures that apply equitably to all similarly situated taxpayers. On the other hand, we recognize that the Congress wants to deal with situations under current law that seem inequitable. Nevertheless, in view of the current concerns over projected budget deficits, we are very reluctant to support changes in the current law where there are sound reasons for the existing rules, and the changes would reduce the Federal revenues, even though there are reasonable arguments in support of the changes.

I would like to discuss very briefly our position with respect to the five bills. At the end of our statement is a table which sets forth the revenue estimates the Treasury has come up with, with respect to each.

The first two bills that I will discuss very briefly are S. 473 and S. 474. S. 473 would amend section 170 of the Internal Revenue Code to provide that the amount of charitable contribution deduction for the operation of an automobile in performing charitable services shall be determined at the same mileage rate used in reimbursing Government employees for the use of their vehicles on official Government business. S. 474 would amend section 213 of the code to provide a similar result for medical expenses.

We acknowledge that a reasonable argument can be made for using the same mileage rates to measure the cost of using an automobile for charitable or medical purposes as used for business purposes. Nevertheless, we believe that there are sound reasons for the differences in rates, and thus the Treasury Department opposes these two bills.

At the present, the Federal Government reimbursement rate, which is the same rate taxpayers are permitted to use for purposes of computing business expense deductions, is 20 cents a mile. Taxpayers who use their automobiles in connection with performing services for charitable organizations or to obtain medical care benefits is 9 cents a mile. The difference in the two rates results from the fact that the standard mileage rate permitted for purposes of a charitable contribution and medical expense deduction reflects an allowance for gas and oil; that is, the expenses that are directly incurred in the performance of charitable services or the obtaining of medical care. On the other hand, the standard mileage rate for business use of an automobile reflects the additional allowance for depreciation, insurance, general repairs and maintenance, registration fees, and so forth. We believe this difference is justified.

The allowance of the lower mileage rate for purposes of the charitable contribution and medical expense deduction reflects the longstanding administration position that only deductible expenses that are directly attributable to the use of a vehicle in rendering charitable services or obtaining medical care should be allowed. No deduction is allowed for a proportionate share of the other items such as depreciation which I mentioned.

There are basically three reasons for this. First, the code section itself uses the phrase "paid." Items have to be paid to or for the use of a qualifying charity to be deductible. Section 213, the medical expense provision, in essence takes the same tack. Fixed or general expenditures which would have been incurred regardless of the use of the automobile for charitable or medical purposes cannot be said to be amounts paid to or for the use of a charitable organization.

Second, it is difficult to identify and quantify the amount of the indirect costs that are properly attributable to charitable endeavors or to obtaining medical care.

And third, it is difficult to insure compliance in this area under the current rules, and to allow a deduction for these other indirect costs would exacerbate this problem.

I would also note that the rationale underlying the limitations which I just mentioned applies not only to the use of personal automobiles but also to other properties such as the use of real estate, both for personal and charitable purposes.

Thus, in all cases, fixed costs such as depreciation, insurance, and general maintenance and repairs may not be deducted. If such costs are allowable for the use of automobiles, it could also be argued that they should be allowed for the use of these other properties. Such an expansion of the existing rules would compound the problems of measurement and compliance which I have previously mentioned.

We believe that the current rules provide an acceptable measure of the charitable and medical deductions for the use of a taxpayer's automobile. In most cases, the current mileage rate is adequate to cover the incremental costs directly attributable to the rendering of charitable services and obtaining medical care. Moreover, taxpayers are not limited to the standard mileage rate but may deduct their actual costs of gas and oil if that alternative is more favorable. Thus, the current mileage rate should not work a hardship on any taxpayer whose actual out-of-pocket expenses exceed the mileage allowance.

One final reason for opposing these bills are their costs. As the attached schedule indicates, the combined revenue loss from these two bills would be $77 million in 1983, $140 million in fiscal 1984, and would reach $210 million in fiscal 1987.

I would now like to discuss S. 710, which would postpone the time for payment of the manufacturers' excise tax on fishing tackle and equipment. As with respect to the previous two bills, Treasury opposes S. 710. The argument advanced for extending the time of payment of the excise tax is that the seasonal retail sale pattern for sport fishing equipment leads manufacturers to grant lengthy credit terms to distributors so that the latter will increase stock during the off season and enable the manufacturer to produce at a more even pace.

Under present regulations, the manufacturer thus must pay the excise tax before he receives payment from the distributor. However, the extended credit terms of the manufacturer also requires the manufacturer to finance all other expenses, such as rent, wages, and raw materials, for the same time pending receipt of payment from the distributor.

S. 710 would have the effect of delaying the payment of the excise tax more than other expenses of manufacturers. Moreover, Mr. Chairman, different trades have different customary trade credit terms which are designed to facilitate operation and maximize profits. Treasury sees no reason why the time of payment of the excise tax should vary for different industries depending upon the usual credit terms in the industry. If a special rule is fashioned for fishing equipment, other special rules will have to be given to other industries which have unique business practices. Passage of this bill would lead to pressure from others seeking the same type of specialized relief.

Senator PACKWOOD. Let me ask you a question.

Could you give me some examples of other types of businesses that would be faced with the same excise tax problem?

Mr. GLICKMAN. Well, as you know, Mr. Chairman, all the manufacturers' excise tax are controlled by the same payment schedule. Now, some of them that we would look at would be taxes on motor vehicle parts, gas guzzlers tax, the tires and tubes, gasoline, lubricating oil, coal, fishing tackle, firearms, and——

Senator PACKWOOD. So that somehow, unless the fishing tackle manufacturers could differentiate their business from the others, and they argue that because of the seasonal nature of their business—manufacturing in the winter and selling in the summer—unless they could be differentiated from all other excise taxes in terms of fairness, you would have to extend that same right to all of them.

Mr. GLICKMAN. That would be our feeling, Mr. Chairman. At least there would be great pressure brought to bear to do that, and when we start talking about when payment is made, I couldn't be at all sure that some of these other industries do not extend credit to their customers, and thus we will undoubtedly be hearing a very similar argument.

The next bill is S. 1923——

Senator PACKWOOD. Let me interrupt you again, Mr. Secretary, to say to the other witnesses, the reason we let the Secretary go on beyond the 5 minutes is he has to comment on all of the bills we have today. The time limit for witnesses is 5 minutes when they are testifying on one bill.

Please continue, Mr. Secretary.

Mr. GLICKMAN. It was a great relief that it was a short list, Mr. Chairman.

The next bill is S. 1923, which would extend the annual accrual method of accounting to certain corporate joint ventures. Section 447 of the code, which was enacted with the Tax Reform Act of 1976, generally requires corporations engaged in the trade or business of farming to use the accrual method of accounting and to capitalize their preproductive-period expenses. The section involved, which is section 447(g), provides a limited exception for corporations which have used something which is referred to as the annual accrual method of accounting for at least 10 years prior to 1976 and which raise crops which are harvested more than 12 months after their planting. Such corporations are permitted to continue to use the annual accrual method. Under this method, revenues, costs, and expenses are computed on the accrual method, but preproductive-period expenses may either be inventoried or they may be expensed.

S. 1923 would amend section 447(g) to permit the use of the special annual accrual method of accounting by partnerships formed between corporate taxpayers that currently use the special accounting method and corporations that cannot use such special accounting method.

Treasury is opposed to S. 1923. It is not merely a technical change in the existing statute. The legislative history of that provision makes it clear that this special rule was intended to permit taxpayers who had a substantial history of using the annual accrual method to continue its use while prohibiting its use by new taxpayers. In effect, the proposed change would permit new taxpayers to use the method without regard to former tax practices. We believe that the special exception of section 447(g) should not be expanded.

The final bill which I will be discussing this morning, Mr. Chairman, is S. 1854, which concerns the exclusion from gross income for national research service awards. S. 1854 would make permanent the temporary exclusion from gross income for national research service awards, which are referred to as NRSA's. Treasury supports continuation of the temporary exclusion pending review of the tax treatment of similar Government grant programs and the formulation of comprehensive legislative or administrative guidelines regarding such programs. At this time, however, Treasury opposes the permanent exclusion that would be allowed by S. 1854.

A reasonable argument can be made in support of the treatment of the NSRA's as excludable scholarships or fellowship grants. Since no Federal Government service or publication of research results is required under the program, requirements imposed on the recipients would not seem to be primarily for the benefit of the grantor, the Federal Government, in any direct sense. The primary beneficiary of this program would seem to be the general public, by virtue of the public benefits flowing from the research conducted and the teaching skills created through the program.

Nevertheless, Treasury is opposed to making the NRSA exclusion permanent at this time. We recognize that Congress three times has passed temporary legislation excluding NRSA grants from gross income. However, there are a number of other governmental education programs conditioned upon the recipient performing some public service that may directly or indirectly benefit the grantor. Treasury believes that developing comprehensive guidelines for the tax treatment of these educational grant programs is preferable to legislating on a case-by-case basis with respect to each particular program.

Accordingly, yesterday we initiated a project to consider whether these standards can be developed within the framework of existing law by ruling or regulation, or whether legislation is necessary. If it is determined that new legislation is needed, we will be pleased to work with this subcommittee in developing the appropriate general rules. Pending completion of our review, Treasury supports continuation of the temporary exclusion. We would suggest that the exclusion be continued through December 31, 1983.

Mr. Chairman, that concludes my remarks, and I'll be happy to answer any questions you might have.

Senator Packwood. I want to ask you a question about S. 1923.

As I understand it, at the moment agricultural corporations can use the annual accrual method. I do not understand the logic of denying that to partnerships or to joint ventures where one of the partners may be an agricultural corporation.

Mr. Glickman. Section 447(g), Mr. Chairman, is very narrow in its approach. In other words, it required a 10-year previous history of using the annual accrual method. If we allow joint ventures to use the method, an entity that has had no previous experience or activity in this area will be allowed to take the benefit of the annual accrual method, to the extent it is a partner in one of these joint ventures, even though the entity does not have a 10-year history of using the method. I think that this goes well beyond what was intended in 1976 by the Congress when it enacted this provision and really just provides this tax deferral benefit to an entity which, as I said, was not previously using the annual accural method.

Senator Packwood. My second question relates to changing from 9 to 25 cents per mile both the medical and charitable mileage deduction.

Your argument here is that the deduction that should be allowed would be roughly the proportionate cost of your car that is directly related to charitable or medical activities without trying to factor in your depreciation, insurance, and so forth. It ought to be the equivalent of almost an out-of-pocket payment for gasoline and oil.

Mr. Glickman. That is correct. That is why I said earlier in my statement, Mr. Chairman, that if your actuals for gas and oil are in excess of the 9 cents a mile, that is what you can use.

Senator Packwood. I have no other questions, Mr. Secretary. I appreciate you coming.

Mr. Glickman. Thank you, Mr. Chairman.

[The prepared statement of David G. Glickman follows:]

For Release Upon Delivery
Expected at 9:00 A.M. E.S.T.
April 23, 1982

STATEMENT OF DAVID G. GLICKMAN DEPUTY ASSISTANT SECRETARY (TAX POLICY) DEPARTMENT OF THE TREASURY BEFORE THE SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT OF THE SENATE FINANCE COMMITTEE

Mr. Chairman and Members of the Subcommittee:

I am pleased to have the opportunity to present the views of the Treasury Department on the following bills: S. 473 and S. 474, dealing with the automobile mileage allowance permitted for purposes of computing charitable contribution and medical expense deductions, respectively; S. 710, relating to the time for payment of the manufacturers excise tax on fishing tackle; S. 1923, which would extend the benefit of the special "annual accrual method of accounting" to partnerships formed between certain farming corporations entitled to use that accounting method and other corporations; and S. 1854, which would make permanent the exclusion from gross income for National Research Service Awards.

At the outset, I would like to emphasize that our position on each of these bills is strongly influenced by this Administration's commitment to the proposition that the best means of providing tax relief is through general rate reductions and other measures that apply equally to all similarly situated taxpayers. On the other hand, we recognize that the Congress wants to deal with situations under current law that seem inequitable. Nevertheless, in view of current concerns over projected budget deficits, we are very reluctant to support changes in the current law where there are sound reasons for the existing rules and the changes would reduce Federal revenues, even though there are reasonable arguments in support of the changes.

I will now discuss the Treasury's specific views on each of these bills. Our estimates of the revenue effects of the bills are shown on the schedule attached to this statement.

S. 473 and S. 474: Increase in Standard Mileage Rate for Purposes of Computing Charitable Contribution Deduction (S. 473) and Medical Expense Deduction (S. 474)

S. 473 would amend section 170 of the Internal Revenue Code to provide that the amount of the charitable contribution deduction allowable for expenses incurred in the operation of an automobile in performing services for a charitable organization shall be determined at the same mileage rate used by Government employees to determine reimbursement for use of their vehicles on official Government business. S. 474 would amend section 213 of the Code to provide that the mileage rate used in reimbursing Federal employees also shall be used for purposes of computing the amount allowable as a deductible transportation expense necessary for medical care.

We acknowledge that a reasonable argument can be made for using the same mileage rate to measure the cost of using an automobile for charitable or medical purposes as is used to measure the cost of using an automobile for business purposes. Nevertheless, we believe that there are sound reasons for the different rates used under present law. Accordingly, the Treasury Department must oppose S. 473 and S. 474.

At present, the Federal Government reimbursement rate, which is the same rate taxpayers are permitted to use for purposes of computing business expense deductions, is 20 cents per mile. Taxpayers who use an automobile in connection with performing services for charitable organizations or to obtain medical care may use a standard mileage rate of nine cents a mile in computing their charitable contributions or medical expense deductions. The difference in the two rates results from the fact that the standard mileage rate permitted for purposes of the charitable contribution and medical expense deductions reflects an allowance for gas and oil, that is, the expenses directly incurred in performing the charitable service or obtaining medical care. On the other hand, the standard mileage rate for business use of an automobile reflects an additional allowance for depreciation, insurance, general repairs and maintenance, and registration fees. We believe this difference is justifiable.

Allowance of the lower mileage rate for purposes of the charitable contribution and medical expense deduction reflects the longstanding administrative position that the only deductible expenses are those directly attributable to the use of a vehicle in rendering charitable services or in obtaining medical care. No deduction is allowed for a proportionate share of general maintenance, general repairs, depreciation or fixed costs, such as insurance or registration fees. There are three reasons for this position.

First, section 170 of the Code requires that a contribution be paid to or for the use of a qualifying charity to be deductible. Similarly, section 213 of the Code defines medical transportation as amounts paid for transportation primarily for and essential to medical care. Fixed or general expenditures which would have been incurred regardless of the use of a vehicle for charitable or medical purposes cannot be said to be amounts paid to or for the use of a charitable organization or amounts paid to obtain medical care. Second, it is difficult to identify and quantify the amount of indirect costs that are properly attributable to charitable endeavors or to obtaining medical care. Third, it is difficult to ensure compliance in this area under current rules, and to allow a deduction for these indirect costs would exacerbate this problem.

I would also note that the rationale underlying these limitations applies not only to the use of a personal automobile, but also to other property, (such as real estate) used for both personal and charitable purposes. Thus, in all cases, fixed costs, such as depreciation, insurance, and general maintenance and repairs, may not be deducted. If such costs are allowed for the use of automobiles, it could also be argued that they should be allowed for the use of other property. Such an expansion of the existing rules would compound problems of measurement and compliance.

We believe that the current rules provide an acceptable measure of the charitable and medical deductions for the use of a taxpayer's automobile. In most cases, the current mileage rate is adequate to cover the incremental costs directly attributable to rendering a charitable service or obtaining medical care. Moreover, taxpayers are not limited to the standard mileage rate, but may deduct their actual expenses for gas and oil if that alternative is more favorable. Thus, the current mileage rate should not work a hardship on any taxpayer whose actual out-of-pocket costs exceed the mileage allowance.

Finally, the proposed legislation, if enacted, would be costly. As the attached schedule indicates, the combined revenue loss from these two bills would be $77 million in fiscal 1983 and $140 million in fiscal 1984 and would reach $210 million by fiscal 1987.

S. 710: Postponing Time for Payment of Manufacturers Excise Tax on Fishing Tackle and Equipment

Section 4161(a) of the Code imposes a manufacturers excise tax on fishing tackle and equipment at a rate of 10 percent of the sales price of the various articles subject to the tax. Under current law, a manufacturer must deposit the excise taxes due on a semi-monthly basis nine days after the close of the period involved if total tax liability exceeds $2,000 for any month in the preceeding calendar quarter. S. 710 would amend section 6302 of the Code to postpone the time for payment of this excise tax. Under the bill, the tax would be due and payable as follows:

1. in the case of articles sold during the calendar quarter ending December 31, on March 31;
2. in the case of articles sold during the quarter ending June 30, on September 24; and
3. in the case ofarticles sold during the quarter ending June 30, on September 24; and
4. in the case of articles sold during the quarter ending September 30, at such time as the Secretary may prescribe by regulations.

Treasury is opposed to S. 710. The argument advanced for extending the time of payment of the excise tax is that the seasonal retail sale pattern for sport fishing equipment leads manufacturers to grant lengthy credit terms to distributors, so that the latter will increase stock during the off-season and enable the manufacturers to produce at a more even pace. Under present regulations, the manufacturers thus must pay the excise tax before they receive payment from their distributors. However, the extended credit terms of the manufacturers also require the manufacturers to finance all other expenses (rent, wages, raw materials, etc.) for some time before receiving payment from their distributors. S. 710 could have the effect of delaying the payment of the excise tax more than that of other expenses of the manufacturers.

Moreover, different trades have different customary credit terms, which are designed to facilitate operations and maximize profits. Treasury sees no reason why the time of payment of excise taxes should be varied for different industries depending on the usual credit terms in the industry. If a special rule is fashioned for fishing equipment, other special rules will have to be given to every other industry which has unique business practices. Passage of this bill will lead to pressure from others seeking specialized relief.

S. 1923: Extension of Annual Accrual Method of Accounting to Certain Corporate Joint Ventures

Section 447 of the Code, which was enacted with the Tax Reform Act of 1976, generally requires corporations engaged in the trade or business of farming to use the accrual method of accounting and to capitalize preproductive period expenses. Section 447(g) provides a limited exception for corporations which had used an "annual accrual method of accounting" for at least 10 years prior to 1976 and which raise crops which are harvested more than 12 months after planting. Such corporations are permitted to continue to use the "annual accrual method." Under this method, revenues, costs and expenses are computed on an accrual basis but preproductive period expenses may be either inventoried or expensed.

S. 1923 would amend section 447(g) to permit the use of the special annual accrual method of accounting by partnerships formed between corporate taxpayers that currently use the special accounting method and corporations that cannot now use the special accounting method.

Treasury is opposed to S. 1923. It is not merely a technical change in the existing statute. The legislative history of that provision makes it clear that this special rule was intended to permit taxpayers who had a substantial history of using the annual accrual method to continue its use while prohibiting its use by new taxpayers. In effect, the proposed change would permit new corporate taxpayers to use the method without regard to past practice. We believe that the special exception of section 447(g) should not be expanded.

S. 1854: Exclusion From Gross Income for National Research Service Awards

S. 1854 would make permanent the temporary exclusion from gross income that expired in 1981 for National Research Service Awards ("NRSAs") received by individuals pursuant to the National Research Service Award Act of 1974 (42 U.S.C. § 289 l-1). Treasury supports continuation of the temporary exclusion pending review of the tax treatment of similar governmental grant programs and formulation of comprehensive legislative or administrative guidelines regarding such programs. At this time, however, Treasury opposes the permanent exclusion that would be allowed by S. 1854.

Current law provides that, in general, amounts received as scholarships or fellowships are fully or partially excludable from gross income. The exclusion is restricted to educational grants made by relatively disinterested grantors who do not require any significant *quid pro quo* from the recipient. Payments to enable an individual to pursue studies or research are not considered to be scholarships or fellowship grants if the payments represent compensation for past, present or future employment services or for services subject to the supervision of the grantor, or if the studies or research are primarily for the benefit of the grantor.

NRSAs are awarded to individuals for biomedical and behavioral research, or for pre- or post-doctoral training at public, private or governmental institutions. In return for an NRSA, most recipients must, within 2 years after completion of the period for which the award was made, engage in health research or teaching for a specified period of time. If a recipient fails to complete the post-award service requirements, he must repay all or a part of his NRSA. In addition, some recipients must allow the government royalty-free use of any copyrighted materials produced from research performed under an NRSA. However, there is no requirement that a recipient publish the results of his research.

In 1977, the Internal Revenue Service ruled (Rev. Rul. 77-319, 1977-2 C.B. 48) that NRSAs are not excludable scholarship or fellowship grants because the post-award requirements and the copyright policy constitute a substantial *quid pro quo* in exchange for NRSA grants. In 1978, temporary legislation was passed to exclude NRSAs from income pending study of the entire area of scholarships and fellowships by the Joint Committee on Taxation. That temporary exclusion expired at the end of 1981. S. 1854 would make the exclusion for NRSAs permanent.

A reasonable argument can be made in support of treating NRSAs as excludable scholarships or fellowship grants. Since no Federal Government service or publication of research results is required under the program, the payback clauses, post-award service requirements and copyright policy imposed on recipients would not seem to be primarily for the benefit of the grantor -- the Federal Government -- in any direct sense. The primary beneficiary of the NRSA program is the general public, by virtue of the public benefits flowing from the research conducted and the teaching skills created through the NRSA program.

Although there are policy arguments in favor of excluding NRSAs from gross income, Treasury is opposed to making the NRSA exclusion permanent at this time. We recognize that Congress three times has passed temporary legislation excluding NRSA grants from gross income. However, there are a number of other government educational grant programs conditioned upon the recipients performing some public service that may directly or indirectly benefit the grantor. For example, there are state programs providing for cancellation of student loans if the student performs specified socially beneficial services, which are excluded from income under temporary legislation expiring on January 1, 1983. (P.L. 95-600, § 162). New state or Federal grant programs conditioned on public service requirements may also be enacted in the future. Treasury believes that developing comprehensive guidelines for the tax treatment of these educational grant programs is preferable to legislating on a case-by-case basis with respect to each particular program. Accordingly, we have initiated a project to consider whether these standards can be developed within the framework of existing law by ruling or regulation, or whether legislation is necessary. If it is determined that new legislation is needed, we will be pleased to work with this Subcommittee in developing the appropriate general rules.

Pending completion of our review of this area, Treasury supports continuation of the temporary exclusion from gross income for NRSAs. We would suggest that the exclusion be continued through December 31, 1983.

I would be happy to answer your questions.

Revenue Effect of Five Senate Bills

($ millions)

	Fiscal Years					
	1982	1983	1984	1985	1986	1987
S. 473 Charitable contribution deduction for automobile mileage	7	55	102	115	135	159
S. 474 Medical expense deduction for automobile mileage	*	22	38	41	46	51
S. 710 Time for payment of excise tax on fishing tackle	--	1/	1/	1/	1/	1/
S. 1854 Exclusion for National Research Service Awards	*	8	8	8	8	8
S. 1923 Annual accrual accounting for corporate farming joint ventures	--	*	*	*	*	*

Office of the Secretary of the Treasury
Office of Tax Analysis

April 22, 1982

*Less than $5 million.

1/ This proposal has no revenue effect. Outlays are increased by less than $5 million in this year.

Senator **Packwood**. You bet. It is always a pleasure to have you.

The next witness from the administration is Dr. Doris Merritt, the Research Training and Resources Officer of the National Institutes of Health.

Good morning, Doctor.

STATEMENT OF DORIS H. MERRITT, M.D., SPECIAL ASSISTANT FOR RESEARCH TRAINING, THE NATIONAL INSTITUTES OF HEALTH, DEPARTMENT OF HEALTH AND HUMAN SERVICES

Dr. **Merritt**. Good morning, Mr. Chairman. I am Dr. Doris Merritt, a special assistant for Research Training to the Director of the National Institutes of Health. The NIH is an agency of the Department of Health and Human Services.

I appreciate the opportunity to speak to you this morning——

Senator **Packwood**. Speak very closely into the microphone. It is hard for the people in back to hear your comments.

Dr. **Merritt** [continuing]. I appreciate the opportunity to speak to you this morning on the subject of extending the tax-exempt scholarship status for the national research service award through the end of 1983. In the interest of brevity, I will summarize from my written testimony.

The NRSA program was established by Congress in 1974 through Public Law 93-348. This authority, as amended, directs the NIH, the Alcohol, Drug Abuse, and Mental Health Administration, and the Health Resources Administration Division of Nursing to support research training in the biomedical and behavioral sciences. These awards support individuals in their preparation for a career in biomedical and behavioral research through a system of individual fellowships and institutional training grants. Selection of the individuals to receive awards in the case of individual fellowships is based on peer review of competing applications, and in the case of institutional training grants, is subject to the admission process of the institution in which the training is to take place. The trainee or fellow receives a stipend to permit full-time concentrated research study and may elect, under supervision, his or her own research focus. The Department has set the stipend for predoctoral students studying for the Ph. D. at $5,040 a year. The stipend for the postdoctoral trainee—this is someone who has already earned a Ph. D. or M.D. degree—begins at $13,380 per year, with a 5-percent-per-year increase for each year of experience past the doctorate.

Congress, in passing the law, declared, and I quote:

> The success and continued viability of the Federal biomedical and behavioral research effort depends on the availability of excellent scientists, and that direct support of the training of scientists for careers in biomedical and behavioral research is an appropriate and necessary role for the Federal Government.

It goes without saying that research cannot be performed without well-trained investigators, and it requires approximately 7 years beyond the baccalaureate to produce a well-qualified investigator. The purpose of the research training program is to assure that a critical mass of well-trained scientists is available to carry out the research needed to meet national health goals.

The NRSA Act of 1974 required NRSA recipients to engage in health research or teaching for a period equal to the duration of the training period. This requirement was introduced solely to prevent misuse of the program and to assure a research commitment on the part of the awardee. In 1977, the Internal Revenue Service concluded that the NRSA should be considered taxable because, in its view, a health research or teaching obligation plus Government copyright privileges involve a substantial quid pro quo, and therefore the award is made primarily for the benefit of the grantor.

Congress has temporarily nullified the IRS 1977 ruling by statute on three separate occasions. The most recent of these statutory exemptions expired on December 31, 1981.

In the Omnibus Reconciliation Act of 1981, Congress made several changes in the NRSA statute that are supportive of tax-exempt scholarship status for the awards. Moreover, report language accompanying this act emphasized that the primary purpose of the award is to help recipients become qualified for research careers and not, I quote, "for the purpose of receiving services designated by the grantor."

NRSA recipients, particularly physicians, forsake a marketplace salary several times greater than the modest amount of the postdoctoral NRSA award in order to train for careers in biomedical research. NRSA recipients appear willing to accept a lower amount to undertake research training because they view the program as an investment in their own future and they are excited by the intellectual challenge of participating in the future of an exciting biomedical science.

We urge the committee to favor an extention of the tax-exempt scholarship status for NRSA awards from January 1, 1982, through the end of 1983.

I will be pleased, Mr. Chairman, to respond to any questions you may have.

Senator PACKWOOD. I do not have any questions.

You make a very effective and good witness. I agree with your presentation.

Dr. **Merritt**. Thank you, sir.

[The prepared statement of Dr. Doris H. Merritt follows:]

DEPARTMENT OF HEALTH & HUMAN SERVICES
Public Health Service

National Institutes of Health
Bethesda, Maryland 20205

Statement by

Doris H. Merritt, M.D., Special Assistant for Research Training

The National Institutes of Health

Department of Health and Human Services

Summary

The National Research Service Awards (NRSA) program was established by Congress in 1974 through Public Law 93-348 to support research training in the biomedical and behavioral sciences.

The Department of Health and Human Services (DHHS) supports an extention of the treatment of NRSA awards as tax exempt scholarships under Section 117 of the Internal Revenue Code through the end of 1983 for the following reasons:

- The sole purpose of the award is to prepare individuals for a career in biomedical research.
- The primary beneficiaries of the program are the individual recepients whose education and training are being furthered.
- Later service to the Federal Government, or even in particular geographic areas, is not a requirement of the award.
- Any secondary benefits to the general welfare accrue to the nation, not to the DHHS as sponsor.
- Neither DHHS nor the sponsoring institutions may designate the NRSA recepient's eventual employer.
- On three separate occasions, Congress has legislatively nullified, for particular periods of time, an IRS 1977 ruling that the NRSA award should be treated as taxable income.

Mr. Chairman, and members of the Committee, I am Dr. Doris Merritt, a Special Assistant for research training to the Director of the National Institutes of Health (NIH), an agency of the Department of Health and Human Services (DHHS). I appreciate the opportunity to speak to you this morning in support of extending the tax exempt scholarship status for the National Research Service Awards (NRSA) through the end of 1983.

The National Research Service Awards (NRSA) program was established by Congress in 1974 through Public Law 93-348. This authority, as amended, directs the National Institutes of Health (NIH), the Alcohol, Drug Abuse, & Mental Health Administration (ADAMHA), and the Health Resources Administration (HRA), Division of Nursing (DN), to support research training in the biomedical and behavioral sciences. These awards support individuals in their preparation for a career in biomedical and behavioral research through a system of individual fellowships and institutional training grants. Selection of the individuals to receive awards, in the case of individual fellowships, is based on peer review of competing applications and, in the case of institutional awards, is subject to the admission process of the institution in which the training is to take place. The trainee or fellow receives a stipend to permit full-time concentrated research study and may elect, under supervision, his or her own research focus. The Department has set the stipend for predoctoral students studying for the Ph.D. degree at $5,040 per year. The stipend for the postdoctoral trainee begins at $13,380 per year with a 5% per year increase for each year of experience past the doctorate, M.D. or Ph.D.

Congress, in passing the law, declared that "(1) the success and continued viability of the Federal biomedical and behavioral research effort depends on the availability of excellent scientists and a network of institutions of excellence capable of producing superior research personnel; (2) direct support of the training of scientists for careers in biomedical and behavioral research is an appropriate and necessary role for the Federal Government...." There is a close and reciprocal relationship between the continued productivity of research and the availability and replenishment of the supply of well-trained investigators who help to determine the nation's ability to conduct research. Research cannot be performed without well-trained investigators, and it requires approximately seven years of study beyond the baccalaureate to produce a well qualified investigator. The purpose of a research training program is to assure that a critical mass of well-trained scientists is available to carry out the research needed to meet national health goals.

The NIH is responsible for administering approximately 90% of the NRSA awards. In FY 1982 the NIH portion of the NRSA program will support 9,702 budgeted research training positions of which approximately one half will be held by predoctoral and one half by postdoctoral students. ADAMHA is budgeted to support 1,073 students in FY 1982 and HRA/DN, none.

The NRSA Act of 1974 required NRSA recipients to engage in health research or teaching for a period equal to the duration of the training period. This requirement was introduced solely to prevent abuse of the program and assure a research career commitment on the part of the awardees. In 1977 the Internal Revenue Service concluded that the NRSAs should be considered taxable because, in its view, a health research or teaching obligation plus government copyright privileges, involve a substantial quid quo pro and, therefore, the award is made primarily for the benefit of the grantor.

Congress has legislatively nullified the IRS 1977 ruling by statute for particular periods of time on three separate occasions. However, the most recent of these statutory exemptions expired on December 31, 1981.

The Department of Health and Human Services (DHHS) supports an extension of treatment of NRSAs as tax exempt scholarships under section 117 of the Internal Revenue Code through the end of 1983.* The primary beneficiaries of the program are the individual recipients whose education and training are furthered. Later service for the Federal Government, or even in particular georaphic areas, is not a requirement. Any secondary benefits to the general welfare accrue to the nation, not to the DHHS as donor. Neither the Department nor the sponsoring institution may designate the NRSA recipient's eventual employer. In sum, the sole purpose of the award is to train the recipients for a career in biomedical or behavioral research.

In the Omnibus Budget Reconciliation Act of 1981, Congress made several changes in the NRSA statute that are supportive of tax exempt scholarship status for the awards. Moreover, report language accompanying this Act emphasized that the primary purpose of the award is to help recipients become qualified for research careers and not "for the purpose of receiving services designated by the grantor."

NRSA recipients, particularly MDs, forsake a marketplace salary several times greater than the modest amount of postdoctoral NRSA awards in order to train for careers in biomedical research. NRSA recipients appear willing to accept a lower amount to undertake research training, because they view the program as an investment in their own futures, and they are excited by the intellectual challenge of participating in the future of biomedical science.

We, therefore, urge the Committee to favor an extension of the tax exempt scholarship status for NRSA awards through 1983.

I will be pleased to respond to any questions you or the Committee may have.

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*Essentially, section 117 permits predoctoral students to exclude the entire amount of their stipend from taxable income while it allows postdoctoral students an exclusion limited to $3600 per year.

Senator **Packwood**. It would be my inclination to extend this beyond 1983, but I understand the administration's desire to want to look at the entire problem.

Dave?

Senator **Durenberger**. Thank you very much, Dr. Merritt.

Dr. **Merritt**. Yes, sir.

Senator **Durenberger**. I appreciate it very much.

Senator **Packwood**. We will move on to S. 1923, and the next witness is Richard L. Griffith.

Good morning.

Mr. **Griffith**. Good morning, Mr. Chairman, Senator Matsunaga, Senator Durenberger.

Senator **Packwood**. Do you have a statement on this issue, Senator Matsunaga?

Senator **Matsunaga**. Yes, I do, Mr. Chairman.

Mr. Chairman and members of the subcommittee, I wish at the outset to thank you for holding this hearing on the bill which I introduced, S. 1923. Now, this bill would allow corporate sugar growers to enter into joint venture with other corporations and still use the traditional method of income accounting, the annual accrual method.

The Hawaiian sugar growers had a catastrophic year in 1981 and face an equally disastrous year in 1982. To obtain the capital needed for continued operation, one of the sugar companies is seeking to enter into a joint venture with another corporation. However, under present law the annual accrual method of accounting currently utilized by the sugar company could not be utilized by the joint venture. The joint venture is barred from using the accounting method.

Now, this prohibition constitutes a major roadblock in keeping the affected sugar plantation in operation. My bill would permit them to seek their own means in the private sector to stay afloat. The sugar industry is the third largest revenue producer in Hawaii. That industry is now severely threatened by huge financial losses. The cost of production of sugar in Hawaii is far above the current market price and the Federal loan support program price.

European Economic Community practices have in effect caused this predicament for our domestic sugar industry. The European Community guarantees a high price for its own sugar industry and subsidizes enormous amounts of exported sugar. Up until 1975 the European Community imported sugar. Today it is exporting sugar, and its subsidized exports are capturing more and more of the world market. The Hawaiian Sugar Planters Association has joined in support of a petition under section 301 of the 1974 Trade Act that seeks to curb this European practice.

I have every hope that the proceeding under section 301 will achieve its objective. However, although proceedings began in early October last year, the European Community has only recently agreed to consultations, 4 months after consultations were requested.

Under the rules of both section 301 and the International Subsidy Agreement, the consultations should have been concluded by now. In the meantime, the U.S. sugar industry continues to incur heavy losses due to the low selling price of sugar brought on by the dumping of government-subsidized European exports in the world market. The Hawaiian sugar industry lost $83 million last year. It anticipates losses this year approaching $80 million. Two of the largest sugar producers temporarily closed plantation and factory operations, thereby idling 4,400 workers. One plantation has initiated a permanent closing affecting 500 workers and removing 16,000 caneland acres from cultivation. The permanent closing of a second plantation is also under consideration. This would affect another 500 workers and 18,000 acres.

Union workers on the plantations have agreed to forgo scheduled pay adjustments. The Governor has organized a task force to deal with the emergency. The State legislature is considering various ways of helping the sugar industry, including a loan program. The senior economist of the First Hawaiian Bank estimates that sugar supports nearly 10 percent of the Hawaiian work force directly and indirectly. Industry problems have grave repercussions throughout the State of Hawaii.

I would like to include, Mr. Chairman, as part of the hearing record following my statement, various news articles on the economic difficulties of the Hawaiian sugar industry.

Senator PACKWOOD. Without objection.

[The prepared statement of Senator Spark Matunaga and the information referred to follow:]

STATEMENT OF THE HONORABLE SPARK M. MATSUNAGA
IN SUPPORT OF S. 1923
BEFORE THE SENATE FINANCE SUBCOMMITTEE
ON TAXATION AND DEBT MANAGEMENT

FRIDAY, APRIL 23, 1982

MR. CHAIRMAN, AND MEMBERS OF THE SUBCOMMITTEE, I WISH AT THE OUTSET TO THANK YOU FOR HOLDING THIS HEARING ON MY BILL, S. 1923. THIS BILL WOULD ALLOW CORPORATE SUGAR GROWERS TO ENTER INTO JOINT VENTURE WITH OTHER CORPORATIONS AND STILL USE THE TRADITIONAL METHOD OF INCOME ACCOUNTING -- THE ANNUAL ACCRUAL METHOD. HAWAIIAN SUGAR GROWERS HAD A CATASTROPHIC YEAR IN 1981 AND FACE AN EQUALLY DISASTROUS YEAR IN 1982. TO OBTAIN THE CAPITAL NEEDED FOR CONTINUED OPERATION, ONE OF THE SUGAR COMPANIES IS SEEKING TO ENTER INTO A JOINT VENTURE WITH ANOTHER CORPORATION. HOWEVER, UNDER PRESENT LAW THE ANNUAL ACCRUAL METHOD OF ACCOUNTING CURRENTLY UTILIZED BY THE SUGAR COMPANY WOULD NOT BE UTILIZED BY THE JOINT VENTURE. THE JOINT VENTURE IS BARRED FROM USING THE ACCOUNTING METHOD. THIS PROHIBITION CONSTITUTES A MAJOR ROAD BLOCK IN KEEPING THE AFFECTED SUGAR PLANTATION IN OPERATION. MY BILL WOULD PERMIT THEM TO SEEK THEIR OWN MEANS IN THE PRIVATE

SECTOR TO STAY AFLOAT.

THE SUGAR INDUSTRY IS THE THIRD LARGEST REVENUE PRODUCER IN HAWAII. THAT INDUSTRY IS NOW SEVERELY THREATENED BY HUGE FINANCIAL LOSSES. THE COST OF PRODUCTION OF SUGAR IN HAWAII IS FAR ABOVE THE CURRENT MARKET PRICE AND THE FEDERAL LOAN SUPPORT PRICE.

EUROPEAN ECONOMIC COMMUNITY PRACTICES HAVE IN EFFECT CAUSED THIS PREDICAMENT FOR OUR DOMESTIC SUGAR INDUSTRY. THE EUROPEAN COMMUNITY GUARANTEES A HIGH PRICE FOR ITS OWN SUGAR INDUSTRY AND SUBSIDIZES ENORMOUS AMOUNTS OF EXPORTED SUGAR. UP UNTIL 1975, THE EUROPEAN COMMUNITY IMPORTED SUGAR. TODAY IT IS EXPORTING SUGAR AND ITS SUBSIDIZED EXPORTS ARE CAPTURING MORE AND MORE OF THE WORLD MARKET.

THE HAWAIIAN SUGAR PLANTERS' ASSOCIATION HAS JOINED IN SUPPORT OF A PETITION UNDER SECTION 301 OF THE 1974 TRADE ACT THAT SEEKS TO CURB THIS EUROPEAN PRACTICE. I HAVF EVERY HOPE THAT THE PROCEEDING UNDER SECTION 301 WILL ACHIEVE ITS OBJECTIVE. HOWEVER, ALTHOUGH PROCEEDINGS BEGAN IN EARLY OCTOBER, THE EUROPEAN COMMUNITY HAS ONLY RECENTLY AGREED TO CONSULTATIONS -- FOUR MONTHS AFTER CONSULTATIONS WERE REQUESTED. UNDER THE RULES

OF BOTH SECTION 301 AND THE INTERNATIONAL SUBSIDY AGREEMENT, THE CONSULTATIONS SHOULD HAVE BEEN CONCLUDED BY NOW. IN THE MEANTIME, THE U. S. SUGAR INDUSTRY CONTINUES TO INCUR HEAVY LOSSES DUE TO THE LOW SELLING PRICE OF SUGAR BROUGHT ON BY THE DUMPING OF GOVERNMENT-SUBSIDIZED EUROPEAN EXPORTS ON THE WORLD MARKET.

THE HAWAIIAN SUGAR INDUSTRY LOST $83 MILLION LAST YEAR. IT ANTICIPATES LOSSES THIS YEAR APPROACHING $80 MILLION. TWO OF THE LARGEST SUGAR PRODUCERS TEMPORARILY CLOSED PLANTATION AND FACTORY OPERATIONS, THEREBY IDLING 4,400 WORKERS. ONE PLANTATION HAS INITIATED A PERMANENT CLOSING AFFECTING 500 WORKERS AND REMOVING 16,000 CANELAND ACRES FROM CULTIVATION. THE PERMANENT CLOSING OF A SECOND PLANTATION IS ALSO UNDER CONSIDERATION; THIS WOULD AFFECT ANOTHER 500 WORKERS AND 18,000 ACRES.

UNION WORKERS ON THE PLANTATIONS HAVE AGREED TO FOREGO SCHEDULED PAY ADJUSTMENTS. THE GOVERNOR HAS ORGANIZED A TASK FORCE TO DEAL WITH THE EMERGENCY. THE STATE LEGISLATURE IS CONSIDERING VARIOUS WAYS OF HELPING THE SUGAR INDUSTRY, INCLUDING A LOAN PROGRAM.

The senior economist of First Hawaiian Bank estimates that sugar supports nearly 10 percent of the Hawaiian workforce directly and indirectly. Industry problems have grave repercussions throughout the State of Hawaii. I would like to include as part of the hearing record following my statement various news articles on the economic difficulties of the Hawaiian sugar industry. Certain articles also relate State attempts to cope with the resulting unemployment and economic problems.

The Governor of Hawaii, the Hawaii State Legislature, the four county mayors and councils, -- in effect all levels of government -- are gravely concerned about the plight of the Hawaiian sugar industry. Everyone is seeking alternative means of supporting the industry over a difficult trading and marketing period.

One of the sugar companies, as I stated earlier, hopes to keep its sugar plantations afloat through a joint venture operation, but that effort is barred for all practical purposes, because of the restriction under the tax accounting provision.

In 1976, I proposed a codification of the annual accrual accounting method for Hawaiian sugar companies. This accounting method had long been sanctioned by the Internal Revenue Service and the Congress adopted my proposal as part of the 1976 Tax Reform Act.

When I proposed the current provision of the law, I limited its coverage to corporations. This limitation was intended to preclude any tax abuse of the annual accrual method of accounting by individuals in a tax shelter scheme. As provided in the Tax Reform Act of 1976, the annual accrual method of accounting may be used by corporations only.

As later events have shown, I had overlooked the need to include corporate joint ventures. Under current law, while corporations are permitted to use the annual accrual method of accounting, corporations acting in joint venture are not.

My bill S. 1923 would amend the law to permit corporate joint ventures to utilize the annual accrual method of accounting. In line with the antitax abuse provision in the original provision, which I proposed, the annual accrual method of accounting would

REMAIN UNAVAILABLE FOR INDIVIDUALS, PERSONAL HOLDING COMPANIES, OR CLOSELY HELD CORPORATIONS.

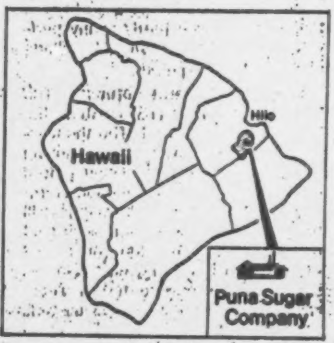
CONSIDERING THE DIRE SITUATION OF THE SUGAR INDUSTRY IN HAWAII AND THE OVERALL GRAVE CONCERN OVER THE AILING INDUSTRY THROUGHOUT MY STATE, S. 1923 WOULD PROVIDE A SMALL BUT NEEDED AND WELCOME ASSISTANCE TO THE PEOPLE OF HAWAII. THE REVENUE LOSS WOULD BE INSIGNIFICANT, IF NOT NONEXISTENT. THE COMMITTEE'S FAVORABLE CONSIDERATION OF MY BILL WILL BE DEEPLY APPRECIATED.

THANK YOU VERY MUCH.

Honolulu Advertiser 1/7/82

Phaseout of Puna Sugar is expected

By Jerry Burris
Advertiser Politics Editor



Amfac Inc. is expected to announce today that it will close down its Puna Sugar Co. plantation on the Big Island over a two- to three-year period because of continuing sugar losses.

A meeting of ILWU sugar workers is set for today, at the plantation, at which time company officials are expected to announce the phaseout.

Company officials reportedly have developed a plan to replace sugar with other agriculture-related activities that could provide jobs for most, if not all, of the 500-or-so unionized workers at the Puna plantation.

Early this morning, a high-level breakfast meeting among union and company leaders, Gov. George Ariyoshi, county mayors and other officials will be held in Honolulu to go over the Puna Sugar situation.

However, it was believed plans for Amfac do not include a state-financed "task force" approach such as was created in the wake of the closing of Kohala Sugar Co. on the Big Island several years ago.

Amfac officials would not comment on any facet of the Puna matter.

The anticipated closing of Puna Sugar follows word late last year from Amfac chairman and president Henry Walker that the firm was "considering" closing up both Puna and the 18,000-acre Oahu Sugar Co. operation.

That announcement led to a rash of meetings among the company, the union and others aimed at finding ways of saving the two sugar operations.

Should the Puna plantation shutdown go through, it will undoubtedly send angry ripples through ILWU ranks. The union had been asked to cooperate with Amfac to keep the ailing plantations in production. One step widely rumored was a move to have workers forgo pay hikes for the time being.

Walker reportedly met with union leaders yesterday afternoon on Oahu to discuss the situation.

The closing of Puna Sugar, if it takes place, is related to declining worldwide sugar prices and the gradual transformation of Amfac into a firm with substantial non-island ownership.

Amfac has reportedly been losing in the neighborhood of $5 million a month on its sugar plantations. A recent study by the firm of Merrill Lynch, Pierce, Fenner and Smith commissioned by Amfac directors reportedly advises the firm to get out of the sugar business.

A quarterly meeting of the Amfac board of directors is set for Kauai in about three months at which Walker would presumably have to answer to the Merrill Lynch report

See Phaseout on Page A-4

Phaseout of Amfac's Puna Sugar plantation expected

from page one

and to his actions on the losing sugar operations.

A phased close-out, with the possibility of replacement crops or even retention of some sugar if prices gain, would be preferable to an immediate total shutdown.

Amfac, one of Hawaii's oldest major firms with some $2.2 billion in annual revenues, is today one-quarter owned by Gulf and Western Industries, a Mainland conglomerate with wide interests, including Mainland sugar production.

Presumably, a stockholder with that sizable a stake in Amfac would wield a lot of clout in pressuring Walker to end the substantial sugar losses. Walker, a Hawaii native, has long sought to keep the sugar end of Amfac alive, but outside stockholders would not want that to be done out of Island sentiment when sound business judgment would dictate closing plantations.

A phaseout of Puna might thus help placate such stockholders by showing that some action is being taken on the sugar front. The theory might be that by taking this step, management might deflect calls for a complete end to Amfac's sugar activities.

There has been a steady succession of sugar plantation closures in the Islands in recent years. In addition to the Kohala Plantation on the northern tip of the Big Island, Kahuku Sugar Plantation on Oahu's North Shore has been shut.

At Kohala, the state-organized task force put up some $5 million in loans for diversified agricultural operations and other businesses to replace sugar. That effort met with limited success at best.

At Kahuku, several alternate crops have emerged, some with state help and others independent, including cash-crop farming and prawn production. Results there have been mixed.

At Puna, the strongest candidates for alternate crops for the short term seem to be papaya production and flower nurseries.

ILWU leader looks at sugar problems during visit

James Herman, ILWU international president, met with key leaders of his union in Honolulu yesterday to discuss the future of Hawaii's beleaguered sugar and pineapple industries.

Herman, who flew here from his San Francisco headquarters Monday, declined to discuss the sugar-pineapple situation.

A union source said Herman's main purpose in coming to Hawaii was to discuss the crisis in the sugar industry, which is seeking relief from a 10 percent wage increase due Jan. 31.

The ILWU and industry agreed in March to a one-year extension of the contract to Jan. 31, 1983, contingent on the 10 percent pay increase this year. At that time, sugar was making good money and was agreeable to the extension.

However, the bottom soon fell out of the sugar market and losses are expected to run into the tens of millions on most plantations for the past year.

The ILWU's sugar negotiating committee met with Herman on Tuesday. Officers of the Local 142 executive board met with him yesterday.

Talks between the ILWU and the pineapple industry, which began Dec. 18, have been low-key since management asked the union for a one-year extension of the present contract without a pay raise.

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1/8/82

Price support called safety net to keep sugar producers going

By Kit Smith
Advertiser Financial Editor

The U.S. farm bill enacted last month with sugar included for the first time "is not a panacea, needless to say to this audience," House Minority Whip Thomas Foley told the Hawaiian Sugar Planters' Association's 100th anniversary meeting yesterday.

"But it's perhaps a safety net of a kind" to keep domestic producers going despite depressed prices, the Washington state Democrat said.

Foley

The 1981 collapse of the sugar market was illustrated in a later talk to the HSPA gathering, held in Amfac Inc.'s board room. John Bunker, the new president of California & Hawaiian Sugar Co., reported that net cash returns to Hawaii's sugarcane growers — including molasses results — will total about $376 million for 1981, down from the $530 million reported a year ago.

The 1981 figure is based on a return of 17.8 cents per pound — well below the HSPA-computed average cost of production for the Hawaii industry of 19.3 cents per pound.

Estimates of aggregate losses among Hawaii growers on 1981 operations have run as high as $100 million.

Hawaii's industry, exposed to boom-bust cycles starting in 1974 and 1980, today stands "in perhaps its most difficult position ever," said HSPA Chairman John "Doc" Buyers, in opening the meeting. Buyers, president of C. Brewer & Co. Ltd., later was elected to a third term in the HSPA post.

Supporting his assessment was Amfac Inc.'s announcement yesterday of plans for a phased closing of its loss-plagued Puna Sugar Co.

Actually, sugar growers are not alone in facing tough times, said Foley, who is credited by HSPA lobbyists with securing the necessary votes for the farm bill's razor-thin 205-203 victory Dec. 16. (In the final floor debate, when Tom Foley rose to speak, "everyone listened" — in marked contrast to earlier speakers, noted HSPA Vice President Eiler Ravnholt.)

For U.S. agriculture as a whole, the ratio of costs to prices "is the worst since the 1930s," said Foley. Yet, he said, "I don't think urban people have any sense of that."

Foley said it was no surprise that the farm bill — containing a 17 cents per pound price support for sugar — barely passed the House after easy passage of the Senate farm bill, with an 18-cent prop for sugar.

Since every state has at least some agricultural income, "every U.S. senator is a farm senator," he explained. In the House, by contrast, perhaps two-thirds of the members "have urban constituencies," he said.

The other guest speaker was John O'Connell, president of the Sugar Association, who blasted "hoaxters and quacks" for "lies and deceptions" in telling of alleged harmful effects of sugar consumption.

O'Connell quoted a new book, "Vitamins and Health Foods: the Great American Hustle," as saying that, among other things, sugar is "perfectly safe" and does not cause diabetes or obesity — and that there is no evidence sugar consumption increases risk of heart disease. (The book concedes, however, that sugar "is a factor in tooth decay.")

He suggested the possibility of requiring licensing of nutritionists, "as we do with doctors." Also, he said, "we must make clear we are willing to sue those who slander or libel us atrociously."

While per capita consumption of sugar — "sucrose" in the trade — declined from 102 pounds a year in 1970 to about 85 pounds a decade later, consumption of "nutritive" (calorie-containing) sweeteners has held steady, O'Connell said. During that same span, per capita consumption of "high fructose corn syrup," a lower-cost sugar substitute, has jumped from one pound a year to 20, he said.

Costs 2nd highest at Puna Sugar Co.

Amfac Inc.'s Puna Sugar Co. shows up as Hawaii's second-highest-cost sugar producer on a Hawaiian Sugar Planters' Association table.

Only Pioneer Mill, another Amfac unit, has higher costs. But Pioneer Mill is viewed by its parent as internally subsidized, standing as part of Amfac's overall West Maui operations including the profitable Kaanapali Beach Resort.

The HSPA cautions that differences in accounting methods had to be adjusted for in arriving at figures — and that individual plantations' performances were affected by differing weather.

	Production*	Cost/ pound
Alexander & Baldwin Inc.		
HC&S	377.1	18.0¢
McBryde Sugar	113.1	18.9
Total	490.2	18.2
Amfac Inc:		
Kekaha Sugar	110.8	15.8
Lihue Plantation	148.8	21.4
Oahu Sugar	204.4	21.7
Pioneer Mill	82.5	24.4
Puna Sugar	107.1	23.3
Total	653.6	21.2
C. Brewer & Co. Ltd.		
Hilo Coast	174.5	19.1
Ka'u Sugar	124.2	16.3
Olokele Sugar	64.0	15.3
Wailuku Sugar	49.3	15.4
Total	412.0	17.2
Castle & Cooke Inc.		
Waialua Sugar	142.0	20.3
Theo H. Davies & Co. Ltd.		
Hamakua Sugar	288.4	19.6
Total industry	1,986.2	19.3¢

* Millions of pounds in 1981.

Honolulu Advertiser

1/8/82

Fujii proposes co-op to save Puna sugar

By Hugh Clark
Advertiser Big Island Bureau

HILO — County Councilman Tomio Fujii, who represents Puna and is a Puna Sugar employee on leave, yesterday proposed to save sugar in the area with a plan to use non-Amfac sugar lands as the core of a new plantation that could be run by the workers as a cooperative.

Fujii

The idea would require an agreement by Amfac to lease its sugar mill at Keaau to the co-op, however.

Fujii said "sugar should be given another chance. We can make it if we eliminate the high overhead (in management)."

Fujii's plan is based on the idea of using some nearly 5,000 acres of prime cane lands now leased by Puna Sugar from the W.H. Shipman Co. of Keaau which has 8,000 acres under lease to Amfac.

Big Island Mayor Herbert Matayoshi said he would want "to put a pencil" to Fujii's proposal and see if it would work out economically. If it does, he indicated he would support it.

Matayoshi said he was caught off guard by the Puna closure, which he believed was forced upon Walker by out-of-state shareholders in the large company.

Matayoshi said he would oppose any government "task force" treatment for the Puna crisis similar to the one used a decade ago when Castle & Cooke shut Kohala Sugar Co.

Roy Blackshear, head of the Shipman estate which leases land to Amfac, yesterday told The Advertiser he was caught by surprise. He learned of the shutdown, he said, from public officials and news accounts instead of Amfac officials.

"We've been in bed with Amfac for 81 years. It's a strange way to end things," said Blackshear, whose grandfather, William H. Shipman, first leased the lands to Amfac in 1900.

Blackshear said that shortly after the Puna Sugar announcement two or three groups desiring the lands contacted him.

Matayoshi called the closure "a very depressing situation" but said he refuses to give up on agriculture in Puna.

"I'm a little upset they didn't tell us off the bat," Matayoshi said, banging his desk with a fist as he recounted how he met with Amfac representatives last month in response to their pleas to help save Puna Sugar.

"We were all under the assumption if we helped, they could continue," Matayoshi said, adding that Amfac lobbyist Robert Oshiro, a Wahiawa attorney and Democratic Party organizer, "said he was quite embarrassed by it (the shutdown)."

Oshiro, a former legislator, appeared before the county council last month to urge support for Amfac's mini-sugar act at the state level.

Matayoshi predicted all of the businesses on the Big Island would be affected by the closing. And he said the surviving sugar companies would find production, storage and shipping costs climbing because there will be fewer companies to share the costs.

The mayor said he would expand the six-member Sugar Advisory Committee he formed three years ago as a lobbying group to seek congressional support for sugar price supports in Washington.

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Buck Buchwach *Executive Editor*
John Griffin *Editorial Page Editor*
Mike Middlesworth *Managing Editor*

Friday, January 8, 1982

Puna and the future

The closing by 1984 of Puna Sugar Company is a blow to the state economy, the industry and to the already hard-pressed Big Island. But, as Governor Ariyoshi put it, this is also a circumstance with a fringe of hope.

The challenge now is to make the best of a sad situation, and to make it a learning experience toward an uncertain future for sugar and the Hawaii economy in general.

IF THE actual timing was a surprise, the phase-out at Puna was not unexpected in that Amfac president Henry Walker Jr. had talked about this as his firm's most troubled plantation. It was a likely candidate for being first to go.

Accepting the Amfac position that this is a high-cost, low-yield operation with heavy (some $10 million a year) losses now and no real hope when sugar's picture brightens, there are some positive aspects.

The phase-out period will run three years, allowing time for both transfer of some employees to other Amfac operations and for a transition at Puna.

The plan to give each employee about five acres of land above regular severance pay should both help workers economically and speed Puna's transition to other types of agriculture.

We have long said that the essential value of the Kohala Task Force operation and approach might be in showing how not to do it next time. If so, Governor Ariyoshi, Amfac, the ILWU and others have learned the lesson.

In fact, what was notable yesterday was the talk of cooperation between the state, company and union in making the best of a bad but unavoidable situation.

IF PUNA does turn out to be an example of how to do it better, it's uncertain what plantation might come next, and when.

The health of each plantation is separately measured (depending on quality of land, weather, equipment, etc.) within the general health of the sugar industry in Hawaii and in the nation. Some plantations here are close to breaking even or making a profit, even in the present rough period.

It's notable that Walker said Amfac was perhaps five years from a decision on the future of Oahu Sugar Company, the other plantation that he suggested recently might have to close.

He also expressed more optimism than before about sugar's future here, saying that this may be a low point in its current round of trouble due to uneconomic prices and dumping on the world market. If so, As Walker noted, this means a shift from industrial agriculture to more of a cottage type to be carried out by individual families, with some assistance from a non-profit company to be set up by Amfac. That may include papayas, flowers and foliage for export, although the economics of the situation are unclear. Perhaps cooperatives will be part of the answer.

At the same time, Walker said Amfac wants to accelerate its own new agribusiness operations at Puna in papaya and other fruit production. That should also mean marketing help for independent growers in the area.

ALL IN ALL, what Amfac promises in Puna stands in contrast to what happened in the last plantation closing, in the early 1970s when Castle and Cooke announced it was going to phase out Kohala Sugar Company at the north end of the Big Island. A state-county task force, set up to deal with the economic disruption, ended up spending more than $5 million with few jobs provided and some scandalous mistakes painfully evident.

that would be good news.

Realistically, however, it would seem that eventually more sugar plantations will have to close, reduce acreage or switch to other crops. How many and when remain key questions.

THE PROCESS of transition at Puna and what it says about the problems and potential of the state are questions both for the state administration and Legislature.

Walker says Amfac won't seek a subsidy or other financial help from the state or counties. That is both good and realistic politically. But we are clearly in a period when government can help in getting past a difficult period, perhaps delaying the inevitable a bit in some cases, and in aiding the transition to the future.

The Puna announcement is a dash of cold water in an already cool economic climate, especially on the Big Island. But at the least it involves some compassion for those affected — and it shows that more attention must go to an innovative agricultural policy.

1/8/82

Matayoshi Pledges Efforts to Aid Puna Sugar People

By Llewellyn Stone Thompson
and Russ Lynch
Star-Bulletin Writers

HILO — Big Island Mayor Herbert Matayoshi said yesterday the news that Amfac Inc. will phase its 500-employee Puna Sugar Co. out of business by 1984 was "very depressing."

But Matayoshi said he will not push for any "task force" approach like the one used when another major sugar company on the Big Island, Castle & Cooke's Kohala Sugar, went out of business in the mid-1970s.

He said he will, however, support diversified agriculture to replace sugar, such as papaya and tropical flowers, which were among Amfac's proposals for possible use of some 3,000 acres of its Puna land the company said it will deed over to employees as part of their compensation for the loss of their jobs.

Amfac Inc. stock jumped more than two points on the New York Stock Exchange today in what may be a positive reaction on Wall Street to the gloomy news for Hawaii that the company plans to close its money-losing Puna Sugar Co. on the Big Island.

Amfac officials said today they do not know why the stock, which closed at 26⅛ yesterday, went to 28¾ by today's close. But they said they suspect it was related to publicity resulting from yesterday's announcement.

Amfac lost about $35 million before taxes from sugar last year and said Puna Sugar lost $10 million of that.

He said the county can help support transportation and marketing for products such as papayas, flowers and nursery products.

He placed special hope on the development of hypobaric (low pressure, low temperature) containers which would enable bulk shipping of agricultural products to the Mainland and Japan.

Such containers have been unsuccessful so far, but Matayoshi said he will ask the Legislature for further research and development funding if necessary.

THE COUNTY will also use $100,000 recently appropriated by the County Council to promote agricultural products including papayas, he said.

Another measure being considered is a "one stop office" where Puna Sugar employees can get advice on loans, education, retraining, and other needs, Matayoshi said.

Matayoshi said he will expand the size and functions of the Big Island Sugar Steering Committee, a citizens' group which until now has been limited to lobbying for sugar legislation in Washington.

Unionized employees of Puna Sugar at an ILWU meeting in Keaau yesterday, held to discuss the announcement that the factory and plantation will close, echoed Matayoshi's depressed mood and expressed their own worries.

"Everything will be hard," said Martin Alconera, a truck driver with 11 years with Puna Sugar. He said people might return to the "old days" when fish and meat were bartered, but that would not solve the problem of making mortgage payments.

GEORGE CHIQUITA, a company retiree whose son works for Puna Sugar, expressed doubts about the value of the five acres per employee offered by the company. Chiquita said thieves would steal crops and equipment unless a

Turn to Page A-18, Col. 1

A-18 Honolulu Star-Bulletin Friday, January 8, 1982

Puna Sugar Co. News 'Very Depressing'

Continued from Page One

house could be built on each five acres.

That is something Amfac and county officials have said would require zoning changes.

Domingo Baguio, a truck driver with 18 years with the company, said he is not interested in farming and even if he had to take it up, he has no money to finance livestock and equipment.

Kiichi "Keke" Togashi, who started working for the company in 1937, said simply, "I get no idea what I'm going to do."

Daniel Victorino said he worked as a farm laborer in California for two years in the mid-1950s when he was laid off by Puna Sugar, but doubted he could do that this time.

Matayoshi said he will begin studying alternative employment possibilities for Puna Sugar workers who will be laid off.

THOMAS TRASK, regional director of the ILWU, said in Honolulu yesterday he believes the majority of the Puna workers will accept the land grant and take up farming on their five acres. After all, Trask said, the majority of the Puna workers already are farmers.

But Trask said that before Puna Sugar begins its shutdown a full agreement must be reached with his union on benefits for the laid-off workers.

Henry A. Walker Jr., Amfac chairman and president, said yesterday the company is a long way from making a decision on the fate of Oahu Sugar Co., its other big losing plantation.

He said there are steps that can be taken to improve the outlook of Oahu Sugar and Amfac's sugar operations on Maui and Kauai, but at Puna, which he said will lose $18 million in the next two years, there was "no solution except dissolution."

Hawaii County Councilman Tomio Fujii, an employee of Puna Sugar, held out the possibility that the company workers might run the sugar company themselves. He said continued operation might be feasible if marginal lands are taken out of production.

MATAYOSHI suggested another alternative in which sugar grown in Puna might be trucked approximately 20 miles through Hilo to the Hilo Coast Processing Co. mill in Pepeekeo, north of Hilo.

Amfac, however, has said that it studied many different ways under which Puna Sugar might have been kept alive and found that the high farming costs brought on by bad weather, low sugar yields and other factors make sugar no longer feasible.

Amfac's Walker said one of the problems yet to be resolved is Puna Sugar's five-year contract to sell its excess electric power to Hawaii Electric Light Co. That contract will still have two years to run when Puna Sugar closes in 1984.

He said Amfac "would not attempt to disturb" the agricultural usage designated by the state Land Use Commission for the Puna lands.

Walker said Amfac owns about half the 12,000 or so acres at Puna Sugar, with the rest, including the land around the factory, belonging to others, including Shipman Estate and the Catholic Church.

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'Cottage Farming' on Puna Sugar Lands

"Cottage farming" in Hawaii is to get a new trial when Amfac phases out Puna Sugar Co. and grants each of its 550 employees five acres of fee land as a consolation prize.

It will be interesting to see how well the participants profit from the lessons of the past.

One of the first big attempts to launch small-scale farming was through the Hawaiian Homes Commission program initiated in 1920.

On Molokai, homesteaders soon sub-leased their lands to the large pineapple companies. Thereafter they collected land rent. And many became laborers for the large companies — which was not what the homestead program visualized.

Overall the principal attraction of the Hawaiian Homes programs has been for home sites. Farm and ranch utilization remains far less than was originally intended.

Puna Sugar, of course, is reversing things. It is going out of large-scale industrial agriculture — sugar — and providing lands for its workers to farm in fee on their own.

The state government tried that on Oahu in the 1950s after the sugar plantation at Waimanalo closed down. It sold the land off as small farm plots with the restriction that the lands had to be kept in agriculture for at least 25 years.

Now that the 25 years are up it finds the farmers challenging the state objective of keeping as much land in agriculture as possible. The owners are looking at retirement. They would like to urbanize their land to realize a higher return from it.

To prevent such future pressures to change land use, the state administration has moved to a policy of keeping farm lands in public ownership. That is the case in Waiahole Valley on Oahu, which the state purchased. It also is the case with agricultural parks the state has developed or is planning on the Big Island, Maui, Oahu and Kauai.

An early question regarding the Puna Sugar lands is whether homes can be built on the five acres. Amfac's chairman and president, Henry Walker, says that will be up to the county government of the Big Island. The county also will have to relax its 10-acre minimum size for farm lots before the program can go forward.

Permission to build homes will raise the value of the five-acre tracts. But a 2,750-acre farm subdivision dotted with 550 homes obviously will be quite a different thing than that much open land. It may stimulate pressures to resell speculatively. That in turn could make more difficult any effort to operate an owners' association to farm the land cooperatively.

Cottage farming is idealized by many who believe that small is better. But it is hard work. It usually has higher costs than large-scale industrial farming. Financial returns can swing from feast to famine, as the Big Island's independent sugar growers already know.

The state has learned on Molokai, at Waimanalo and elsewhere that cottage farmers don't always respond the way planners want or expect them to. Independence is one of their characteristics.

Keeping that in mind may be helpful to Amfac, the ILWU, representing Puna Sugar employees, the County of Hawaii and the State of Hawaii as they plan the execution of Amfac's generous offer.

Cottage industry plan based on flowers, papaya proposed for displaced employees

y Charles Turner
Advertiser Labor Writer

Puna Sugar Co.'s 500 employees, faced with loss of eir jobs because the Big Isle plantation is closing, will ch get five acres of land and separation pay of up to 5,000 under terms of an initial agreement between the WU and Amfac Inc., it was disclosed yesterday.

But Big Island Mayor Herbert Matayoshi expressed servations about the concept, noting it would require unty zoning changes. And he questioned whether it as economically feasible.

Puna Sugar is expected to lose $18 million during the ext two years and Amfac, its parent company,for sever- months has been considering closing the Big Island antation.

The unique plan to let the workers try their hand at a cottage industry" approach to agriculture — with owers and papaya being the most likely crops — was sclosed yesterday at a press conference hosted by Gov. eorge Ariyoshi.

Although there have been closings of other sugar mpanies in recent years, including Kohala Sugar on e Big Isle, Kilauea Sugar on Kauai and Kahuku Sugar Oahu, this is the first time management has offered ee parcels of land to displaced workers to farm as they sh.

Henry Walker Jr., Amfac's chairman and president, id at yesterday's press conference he believed Amfac ns some 5,000 to 6,000 acres of land that are used by na Sugar. It leases another 6,000 from the Shipman tate and the Catholic church, he said. He said he did t have the exact figures at hand. None of the leased ds would be involved in the outright grants to the gar workers.

Walker said every eligible employee of the company ould get "five acres of fee land at Puna Plantation to rm or work as he chooses. "In coming months, we will rk out a formula and timetable for equitable distribu-n which will be related to years of service with nfac."

Walker and Tommy Trask, ILWU regional director, mmented on the impending shutdown of the financial-ailing Puna Sugar.

Ariyoshi, calling it "a sad day for Hawaii," praised alker for working with the state to provide new jobs, velop new products to replace sugar and assist the ployees and families through the transition period.

And U.S. Rep. Daniel Akaka, home from Washington, d the proposals offered by Amfac could mark "a new beginning for Hawaii's economy" if the cottage industry plan works out.

Advertiser photo by David Yamada

Ariyoshi, left, Walker and Trask at yesterday's news conference.

But Mayor Matayoshi expressed many reservations about the land division, noting it would be legally impossible under the present county zoning that has the acreage zoned in 10-acre agricultural parcels.

Besides, Matayoshi said he pointed out to Walker, the county would require county standard roadways to be installed as well as water lines, which could make such a land scheme economically impossible.

Trask, who said later he thought the land alone was worth $9,000 an acre, praised Walker and Amfac for their "open position in this current sugar crisis" and for "trying to meet their responsibility to Hawaii, the Puna community and the workers and their families."

Walker said it would be up to Hawaii County officials to decide whether zoning changes should be made to permit homes to be built on the five-acre parcels. Trask said he hoped the county would be helpful.

Walker told reporters that Amfac made the decision to close Puna Sugar "after an exhaustive evaluation of all of Amfac's sugar operations, aimed at cutting current and anticipated future sugar losses."

Amfac also owns Oahu Sugar Co. in the Waipahu-Ewa area, Pioneer Mill on Maui and Lihue Plantation and

See Plan for Puna on Page A-4 →

Honolulu Advertiser — 11/8/82

Five acres is a land lot — but not a lot of land

By George Garties
Advertiser Staff Writer

Five acres of land is a whole lot better than a gold watch, but workers who get that land when Puna Sugar Co. closes won't strike it rich as farmers unless they find a way to solve some tough economic problems.

Local experts say agriculture on that small a scale just doesn't make economic sense for most crops. A little farm can't take advantage of heavy equipment and can't grow enough of most commodities to make a living for the family that owns it.

Take papaya, which has been suggested as a good alternative at Puna. Robert Souza, head of a papaya industry group, said that "to make any kind of meaningful type of living as a full-time farmer" would require 30 acres or more.

There's another problem with papayas: They need a fairly dry climate. Most of Puna Sugar's land is too wet and cold, says state Agriculture Chairman Jack Suwa

Flowers and ornamental plants, the other favorite option, can turn a good profit on a small plot, but nurseries cost a lot of money to start.

First Hawaiian Bank vice president Robert Ota says it takes $30,000 or more an acre to start growing anthuriums, and other flower and plant operations cost almost as much. A bank is unlikely to make that kind of loan to someone with no training or experience in the business, he said.

Vegetables, even those that would grow well on the Puna land, face stiff competition from big Mainland growers, according to Lloyd Garret of the U.S. Agricultural Reporting Service.

Officials of Amfac Inc. were discussing the plan with the sugar workers' union yesterday and not available to explain the details. But one Amfac official, who refused to be identified, said the land giveaway is more than a goodbye gesture to laid-off workers.

"It's a brand new idea," he said. "By trying to boost Amfac agribusiness we hope to build something different. Obviously it's an experiment but one we think has potential."

All of the outside analysts supported the plan, but said the only real hope for filling the gap in the state's economy was large-scale agriculture.

Ota said five acres "isn't an economical unit" for someone trying to make a living as a farmer, but "on a part-time basis it would make sense."

5 acres, separation pay for Puna sugar workers

Plan for Puna workers

from page one

Kekaha Sugar or Kauai.

Walker said he still considered the sugar industry to be "viable" despite the current troubles with low sugar prices and added that Amfac was "a long way from making decisions" on the future of the other plantations.

On Maui, Mayor Hannibal Tavares told a worried county council that he was assured the Puna closing would not affect Amfac's Pioneer Mill operation in west Maui.

Pioneer's costs are even higher than Puna's on a per-pound basis, but Tavares noted that Walker said yesterday that Pioneer Mill would be subsidized as a key part of Amfac's overall West Maui operations including the profitable Kaanapali Beach Resort. (For one thing, the lush fields of green cane provide an attractive backdrop for the resort.)

Walker said the Puna Sugar plan for a "cottage industry" run by its former employees has been discussed with Big Island officials as well as the union.

Walker said Amfac also has brought two former Isle agriculture experts from the Mainland to assist in developing agribusiness in the Puna area.

Walker said they would work with horticulturist Scott Seymour and the state Agriculture Department on how to best use some 6,000 acres of Puna land owned by the company.

Walker said "exotic flowers" and papaya seem to offer the best opportunity for the new cottage industry.

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ILWU Offers to Cut Raise During Crisis

The ILWU today offered to forego half of a wage increase for sugar workers that is scheduled to take effect Monday, and then only if there is no unexpected rise in sugar prices in the next six months.

The ailing sugar industry has asked the union to forego the entire 10 percent increase for its 7,500 workers covered under a contract with the ILWU. The contract expires a year from Monday.

Thomas Trask, regional director of the ILWU, said he expected a response by the end of today from the Hawaii Employers Council, which represents the sugar industry in contract talks.

Trask said the ILWU offered to implement only 5 percent of a 10 percent wage increase on Monday, postponing the full wage hike for six months.

A 10 percent wage increase would amount to an average of 70 cents per hour for each worker. Forgoing half of that for six months would cost a worker a total of $360, Trask said.

IF SUGAR PRICES rise from their current level of 18 cents a pound to as much as 28 cents a pound in the next six months and remain at least at that level for 30 days or more, Trask proposed, workers should be paid the entire $360 they would have made if the entire increase had taken effect Monday.

Trask also offered to accept the first rent hike since 1946 for workers who live on plantations, but not nearly as much of an increase as the industry is seeking.

Workers now pay about $35 a month in rent for a two-bedroom house on a plantation, Trask said. The industry has asked to triple rents, and the ILWU offered today to accept rent increases of $5 a month, Trask said.

Trask also offered to create committees to examine problems of productivity and sick leave, which have been concerns of the industry, but he refused to accept increased worker payments to their medical plan, as the industry has proposed.

he Honolulu Advertiser

Final Edition

Today is
Aloha
Friday
Jan. 29, 1982

Sugar workers face deep cuts

Bite the 'bullet,' plantations ask ILWU

By Charles Turner
Advertiser Labor Writer

Hawaii's sugar workers have been asked by financially strapped plantations not only to waive a 10 percent pay hike due Monday, but also to accept:

- Modifications or elimination of incentive plans.
- Reductions in current wage rates, depending upon cost savings and possible relief from the Legislature.
- Improvements in productivity and attitudes.

These were some of the proposals presented to the ILWU officers and negotiators at a meeting with management at the Hawaii Employers Council on Wednesday.

Although the meeting was not open to the press, The Advertiser learned that the sugar industry, which expects losses from last year's operations to run close to $100 million, asked additional cost-cutting concessions including:

- A 150 percent hike in present rental rates for plantation housing (except for pensioners).
- A doubling in medical dues except for retirees and acceptance of a greater share of the cost of office visits, drug prescriptions and laboratory-radiotherapy-X-ray fees.

The sugar workers were to receive hourly increases ranging from 61 cents to 86 cents starting Monday under an amended contract signed a year ago. They currently make $6.09 to $8.62 an hour, depending on their labor classification (there are 11 grades).

But under the proposals made by the sugar industry this week, they would give up those increases until the depressed market gets back on its feet.

In addition, new hires coming in at the first four grades would get only $5 an hour at the lowest grade and $6.25 at the top. The current rates start at $6.09 and go to $6.51 an hour. The reductions range from an 18 percent cut in Labor Grade 1 to 4 percent at Labor Grade 4.

Meanwhile, the ILWU and the pineapple industry also are deeply involved in contract talks that involve a financial crisis for three companies: Dole, Del Monte and Maui Land and Pineapple.

They asked the union in December to forgo any wage increases fo all of this year because of the de pressed pineapple market.

Tommy Trask, ILWU regiona director and chief spokesman fo the union, has declined comment o the sugar-pineapple talks other tha to say that the deadline is rapid approaching for an agreement.

The current pineapple contrac expires at midnight Sunday. ILW President James Herman, who headquartered in San Francisco, sitting in on both sets of negotia tions.

The Honolulu Advertiser

January 30, 1982

Pay hike for sugar workers partly put off

By Charles Turner
Advertiser Labor Writer

Leaders of Hawaii's 7,000 sugar workers agreed yesterday to partial deferment of a 10 percent pay hike scheduled for Monday, along with other concessions which they said were aimed at "saving the industry" from financial ruin.

Although the sugar industry reluctantly went along with the ILWU's concessions to proposals made at a joint union-management meeting on Wednesday, industry spokesman Albert Fraga said:

"We are disappointed in the union's counterproposal. It falls far short of what we needed. We want to make it clear that this doesn't do anything to reduce costs.

"It actually is a deferment of some wages and affords us no relief. But even though it falls far short, we have no alternative but to accept."

Tommy Trask, ILWU regional director, and James Herman, the union's international president, held a press conference at ILWU headquarters yesterday morning immediately after giving their counterproposal to the sugar industry's negotiating committee.

Trask said the union offered to defer half of Monday's 10 percent raise for six months, provided that industry would make a retroactive lump-sum adjustment to sugar workers in August if the price of sugar rises to 28 cents a pound and holds there for 30 days in the interim period.

Sugar now is worth about 19 cents a pound on the wholesale market.

Tommy Trask
Says union will help

Trask said sugar workers would get about $365 per person if the price holds up during the 30-day trial period.

Fraga said his committee went along with the ILWU's deferral proposal, but with the understanding it would not be a compounded increase (5 percent on top of 5 percent).

The union also offered to extend the current agreement for three more months, making the effective expiration date April 30, 1983.

But Fraga said industry "isn't interested in a 15-month agreement and the union agreed to an expiration date of Feb. 1, 1983" after discussing the matter further.

In further concessions, the ILWU agreed to a $5 monthly increase on rentals for some 1,600 units of plantation housing whose rates have not changed since 1946, as well as appointment of committees to get better productivity and to correct sick leave abuses by its members.

The sugar committee asked the ILWU on Wednesday to consider wide-ranging cost-saving revisions to the current contract as well as for "improvements in productivity and attitudes" and an end to sick leave abuses.

But the major item in the industry's request was a complete deferral of the 10 percent pay boost which was scheduled to begin Monday.

The workers are averaging more than $56 a day under existing agreement and the total payroll for

Pay hike for sugar workers partly put off

from page one

the industry is more than $138 million. Sugar officials said they expect to lose about $100 million when all reports are in on the 1981 harvest.

"This union is prepared to help the industry . . . We recognize their plight," Trask said at yesterday's press conference.

Trask said the ILWU would agree to set up productivity studying committees on all plantations "to make sure that any practices which have been going on that are detrimental to productivity — and therefore not making the plantations cost-efficient" — are alleviated.

On the issue of sick leave, Trask said:

"The fact is there may be some abuses by some of our members on sick leave. We are prepared to again set up committees to curb any abuses that may be going on.

"Far be it from this union to say that we would condone that type of activity if it is going on."

Herman, who came here from his union's international headquarters in San Francisco to assist in the sugar talks, said the concessions by the ILWU were "not intended to set a pattern" for other unions.

He said the ILWU "historically" has tried to work out problems with industries which are in trouble. He noted that the ILWU currently is in such talks with the pineapple industry here.

He said the West Coast ILW warehousemen and the Teamster will go into talks with the Norther California warehouses soon.

All of the negotiations are affect- ed by the "downhill pace of th economy," Herman said.

Meanwhile, negotiators for th ILWU and the pineapple industr yesterday jointly announced three-day extension of the curren pact, which was due to expire midnight tomorrow.

A brief statement from Fraga an Trask said the basic collective bar- gaining agreements with Dole, De Monte and Maui Land & Pineappl Co. were extended throug Wednesday.

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A-14 Monday, February 15, 1982

Details of Sugar Plan

THE NEW FEDERAL farm bill requires the secretary of agriculture to support the price of sugar at 17 cents a year for the 1982 crop.

For the following three years the support is to be at 17.5 cents, 17.75 cents and 18 cents a pound.

The secretary is to use duties and fees on imported sugar or other means including sugar purchase. Purchases are expected to be unnecessary.

While the federal supports are above prevailing world prices, they are still below average production costs in Hawaii.

Late in 1981 the Hawaiian Sugar Planters Association estimated these at 19.3 cents a pound industry-wide, but with plantation variations from 15.3 cents to 24.4 cents.

One cent per pound averaged across the industry equals approximately $20 million.

Comparisons, it was stressed, are complicated by weather factors and different accounting methods.

Here are the figures released:

	Production*	Cost/ pound
Alexander & Baldwin Inc.		
HC&S	377.1	18.0c
McBryde Sugar	113.1	18.9
Total	490.2	18.2
Amfac Inc.		
Kekaha Sugar	110.8	15.8
Lihue Plantation	148.8	21.4
Oahu Sugar	204.4	21.7
Pioneer Mill	82.5	24.4
Puna Sugar	107.1	23.3
Total	653.6	21.2
C. Brewer & Co. Ltd.		
Hilo Coast	174.5	19.1
Ka'u Sugar	124.2	15.3
Olokele Sugar	64.0	15.3
Wailuku Sugar	49.3	15.4
Total	412.0	17.2
Castle & Cooke Inc.		
Waialua Sugar	142.0	20.3
Theo H. Davies & Co. Ltd.		
Hamakua Sugar	288.4	19.6
Total industry	1,986.2	19.3c

* Millions of pounds in 1981.

The HSPA says the Hawaii industry could still lose $50 million in 1982 despite the federal price supports.

It has suggested the following plan for additional state support of sugar:

1. The state would establish the fund in 1982 from the treasury surplus, a bond issue or other borrowing.

2. The sugar plantations would begin augmenting the fund by an assessment of $5 per ton of sugar produced annually, or about $5 million a year, until the fund reached a maximum of $100 million.

3. After the fund reached $100 million, the industry's portion of income from the fund would be used to return the original $50 million to the state.

4. Unprofitable sugar companies with production costs *lower* than the average of the Hawaiian industry could make withdrawals from the fund sufficient to enable them to break even in a given year.

5. Unprofitable sugar companies with costs *higher* than the Hawaiian industry average could make withdrawals from the fund to a maximum of the difference between the average revenues and the average cost of the Hawaiian industry. This would reduce but not eliminate their loss. Thus the fund would not reward inefficiency.

6. If total industry revenues exceeded total industry costs in a given year, no withdrawals would be permitted by any sugar plantation even if it was unprofitable.

7. Plantations that withdrew funds would be obliged to repay them in profitable years by paying 50 percent of each year's pretax profit until the funds withdrawn had been completely replaced. No interest would be charged the sugar company for funds withdrawn.

8. No plantation could withdraw in any year more than that percentage of the fund that equalled its percentage of the Hawaiian industry's total production. In addition, no more than half the total fund could be withdrawn in the first year.

9. In the event that a sugar plantation went out of business, it would have no obligation to replace its withdrawal from the fund except for the obligation to repay half of any pretax profits in its final years.

10. Until withdrawn, the stabilization fund would be invested to earn a maximum return. Proceeds would accrue to the state and the industry in direct proportion to their contributions to the fund.

11. The stabilization fund would be eliminated by mutual consent of the state and the industry at such time as an adequate long-term federal program was established to protect the sugar industry.

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A-14 Monday, February 15, 1982

The Sugar Industry's Request for Aid

Any serious proposal to help preserve our No. 1 agricultural industry — sugar — deserves respectful consideration at the Legislature.

That goes for the one advanced last Friday by the Hawaiian Sugar Planters' Association. It is detailed elsewhere on this page. At first glance, however, the HSPA plan appears to offer a lot more to the industry than it does to the public.

The public is to put up $50 million immediately. The industry is to match it only over 10 years — even if there should be a return of the sugar price roller coaster to soaring prices and windfall profits before that.

The loans from the fund are interest free.

There is no undertaking on the industry's part that any particular plantation will be kept alive as a result, only a promise the the maximum public loss would be $50 million.

Fifty million is a much-used figure these days.

It represents about $50 per person for every man, woman and child in the state.

It is the amount Gov. George Ariyoshi would provide each individual state resident as a permanent annual tax credit to offset the 4 percent tax on food and groceries.

It is the amount Hawaiian Electric Co. says it could shave off electric bills by burning cheaper but higher polluting fuel at its Kahe power plant.

Under the right circumstances a $50 million commitment to sugar might be a bargain. It could be a lot less, for instance, than the cost of unemployment benefits if substantial portions of the industry folded.

But it is not clear what the proposed package will actually buy in terms of benefit to the public.

Nor is it clear what precedents a Chrysler-type bailout of sugar might have for other industries here. Will pineapple and hotels be next in line?

The HSPA has put a provocative proposal on the table. But the state administration, the Legislature and the public need to give it very extensive analysis, thought and debate before action is even considered.

The situation is not so panicky that there has to be final action in the present legislative session.

Star B 3/3/82

Sugar Loans: 6% or Interest Free?

By Gregg K. Kakesako
Star-Bulletin Writer

The Senate Agriculture Committee today agreed to the sugar lobby's request for a $50 million loan program, but amended the measure to require that interest on the loans be at least 6 percent.

Meanwhile, four House committees also approved the sugar program and passed it on to the House Finance Committee with minor amendments. Under the House proposal, the $50 million package would be interest free.

The Hawaii Sugar Planters Association proposed the so-called sugar stabilization program to ensure the continued viability of the sugar industry in Hawaii.

The HSPA proposed that the loans be interest-free.

THE NEW AMENDED Senate sugar bill points out that "the demise of sugar industry in Hawaii would be devastating to the state's economy and would result in the almost complete collapse of the Neighbor Island economies."

The purpose of the sugar bill is "to provide state financial assistance to producers of sugar, by supplementing the assistance provided under federal laws, through the establishment of a sugar stabilization fund, which will ensure the continued viability of the sugar industry in Hawaii."

Both sugar bills have to clear the Senate Ways and Means Committee and the House Finance Committee before they can come up for a floor vote by the full House and full Senate.

The loan program would remain in existence until "adequate federal support for the sugar industry is established or until the sugar industry has no further need for the fund," the bill said.

The four House committees approving the loan program with minor amendments were the committees on Agriculture; Youth and Elderly Affairs; Ocean and Marine Resources; and Employment Opportunities and Labor Relations.

IN A RELATED development, the Senate Agriculture Committee yesterday agreed to continue the state's subsidy to

Turn to Page A-3, Col. 1

Senate Panel Tacks Some Interest on the Sugar-Loan Bill

Continued from Page One

independent sugar cane growers by extending its low-interest loan fund.

Under the measure — which now must be approved by the Ways and Means Committee before it can be sent to the floor for a vote by the full Senate — another $2 million loan fund would be established.

The measure, drafted by Sen. Ralph Ajifu's Agriculture Committee, said that a special one-shot loan program totaling $5.2 million was established in 1977. "Some 952 loans were authorized under the program, totaling $5.2 million in principal, leaving an appropriation balance of $247,356," the bill said.

"Of this $5.2 million loaned out, some $1.9 million in principal has been repaid, which represents 528 of the 952 loans repaid in full. Portions of the 424 loans remain outstanding, with a principal amount of $3.2 million," the bill said.

One of the outstanding loans is for $2 million to Mauna Kea Sugar and is due in December.

More Legislature
News in Section B

THE ONLY GROUP to oppose the bill was representatives from the Office of Hawaiian Affairs because they believed that the appropriation should be applied to "all agricultural activities" and not just independent sugar producers.

The beleaguered sugar industry received further help from Ajifu's committee yesterday by the passage of legislation that would lower from 4 percent to 0.5 percent the general excise tax rate on the sale of agricultural raw materials, such as fertilizers, pesticides and other similar products. Ajifu's committee estimated that the change, now being considered by the Ways and Means Committee, would mean an annual tax loss of $2.8 million.

A similar bill was moved out of the House Agriculture Committee, chaired by Big Island Democrat Yoshito Takamine, and sent to the House Finance Committee for further study.

Takamine's committee also passed out the $3 million requested by the University of Hawaii's College of Tropical Agriculture for a research program into the development of disease resistant and high yielding varieties of sugar cane.

Your
Legislature
1982

MEANWHILE, Gov. George Ariyoshi yesterday reluctantly disclosed that his administration is trying to work out a deal under which a portion of Hawai'i's sugar crop could be sold to Japan.

The governor said his proposal would be more beneficial for the sugar industry — which occupies nearly 215,000 acres of land and employs nearly 9,000 employees with an annual payroll that exceeds $142 million — than the subsidy plan proposed by the sugar lobby.

Ariyoshi said that 1.1 millon tons of sugar are produced annually in Hawaii. Of that amount 800,000 to 900,000 tons are processed at the C and H refinery in California for retail sales.

The rest is sold to Midwestern industrial users where it faces stiff competition from foreign sugar which is dumped in the U.S. market.

The governor's proposal, which he personally discussed with U.S. Amabassador to Japan Mike Mansfield two months ago, would be to sell Hawaii's industrial sugar to Japan under an agreement that would provide the Japanese with a stabilized sugar price at time when the price of sugar is fluctating in the world market.

More talks with Japanese and U.S. officials will take place after Mansfield returns to Japan later this week, Ariyoshi said.

Yesterday the governor also met with former Big Island Managing Director Jack Keppeler who had been hired by the state to review the circumstances surrounding the announced closing of Amfac Inc.'s Puna sugar plantation.

Ariyoshi has said that Keppeler's assessment would help him decide whether the state would become involved in the Puna sugar problem.

Star B 3/3/82

ILWU Rejects Bail-out for Sugar Industry

By Lee Gomes
Star-Bulletin Writer

The ILWU, which represents nearly all agricultural workers here, yesterday declined to support the proposed $50 million state bail-out of Hawaii's sugar industry.

The union's position means that it is highly unlikely that state legislators will pass the proposal, which from the time of its introduction has faced an uphill battle in the Legislature. Last week, a key sugar industry official said the bail-out would be a "dead duck" without ILWU support.

Tommy Trask, head of the ILWU, said that considering the state's current fiscal position, and the likelihood of further cuts in federal aid by the Reagan administration, the proposal "may be untimely."

Trask said the idea for the fund probably couldn't get enough votes to pass the Legislature. He also said that details of the fund still need to be worked out.

He noted, for example, that the proposal does not include any provision outlining how a company would pay back interest to the fund.

While not supporting the proposal at this time, Trask also said the union was not inherently opposed to the idea.

"Hopefully, one day a stabilization fund can be worked out," he said, urging more study of the suggestion.

Last week, the ILWU was not present for hearings on the bail-out fund and questions were raised about the union's absence. Trask said yesterday that union officials had spent the time finding out what ILWU members thought of the proposal.

TRASK SAID his union was "not fighting" the sugar companies, and said it supported a number of other bills under consideration by the Legislature to aid the industry.

Trask mentioned bills providing for research funds, loans and tax breaks for sugar as among those the ILWU supported, and said the union will be lobbying for them.

Trask was critical of recent suggestions from some members of the sugar industry that sugar workers contribute 25 cents from their hourly wage to a fund to help the industry.

Trask said the proper forum for the idea was at the negotiating table during recent talks over contract concessions for sugar workers.

"A week ago we were sitting in negotiations. Why didn't they bring it up then? You just don't operate that way," he said.

StarB 3/4/82

Ariyoshi Is 'Very Skeptical' About Puna Sugar Rescue

By Gregg K. Kakesako
Star-Bulletin Writer

Gov. George Ariyoshi said yesterday he is "very skeptical" that the sugar industry can be kept alive in Puna on the Big Island, where Amfac Inc. plans to phase out its sugar operations by 1984.

Ariyoshi told newsmen that a state consultant has suggested that an influx of $13.8 million might help save Puna sugar but that he doubts that it can be accomplished.

"I have to say in all candor that at this point I am very skeptical of the possibility of keeping sugar going at Puna at this time," Ariyoshi said.

Ariyoshi made his comments after meeting with former Big Island Managing Director John Keppeler who was hired by the state to study the possibility of keeping sugar at Puna.

The end of Puna operations will mean that 500 sugar workers will be displaced. However, Amfac has said that it would be willing to turn over Puna sugar lands to its laid off workers in five-acre plots.

DURING AN impromptu news conference yesterday after he briefed the Senate in closed-door caucus on Keppeler's report Ariyoshi said that he is "very skeptical" that anyone besides Amfac would want to take over such a risky venture.

Keppeler estimated that it would take at least $13.8 million and cooperation from Amfac to turn the equipment now owned by the company to the employees and help from the sugar workers' union to prevent the phasing out of Puna sugar, Ariyoshi said.

"My immediate reaction is how can you find someone willing to come up with $13.8 million?" Ariyoshi asked.

The governor said he doesn't want to close the door on the possibility that sugar operations could be continued at Puna, but at the same time he doesn't want to mislead anyone with false hope or information.

In his meeting with senators, Ariyoshi also discussed his trip to the National Governors' Association meeting and his administration's stand on President Reagan's "New Federalism."

AFTER THE meeting, held in the Senate Democratic caucus room and closed to reporters, Senate GOP coalition leader D.G. "Andy" Anderson, who plans to oppose Ariyoshi in November, said he also doesn't believe the state should be in the sugar business, especially at Puna.

Anderson also concurred with Ariyoshi's assessment that the $50 million subsidy, requested by Hawaii's sugar lobby, is too much for the state to loan out. The Hawaiian Sugar Planters' Association proposed that the money be made without any interest.

The sugar lobby has argued that the loan is needed to help cover losses amounting to $83.5 million last year and which may climb even higher this year.

However, the Senate Agriculture Committee yesterday decided that the sugar lobby's bill should be amended to require that the $50 million loan be repaid at 6 percent interest annually. The amended bill is now before the Senate Ways and Means Committee for further study.

The House Agriculture and Labor

Turn to Page A-10, Col. 2

Ariyoshi Is Skeptical About Puna Sugar

Continued from Page One

committees, however, tentatively sided with the sugar lobby and moved the $50 million subsidy bill to the House Finance Committee, keeping intact the provision that allows various sugar companies to borrow interest-free money.

BUT THAT WAS only after Republican Rep. John Medeiros questioned why the sugar lobby wasn't going to put up some collateral before getting the $50 million loan.

Both the Senate Ways and Means Committee and the House Finance Committee have until March 15 to come up with a bill that will be sent to the floor of both houses for a vote.

Anderson, R-3rd Dist. (Windward Oahu), said the sugar lobby's request for a $50 million interest-free loan is "premature" and "not well thought out."

"I don't think the state has the financial capability," Anderson added, "to go into a mini-sugar act. I think the details of that concept right now are just too skimpy."

On "New Federalism" both Anderson—the Republican gubernatorial challenger—and Ariyoshi—the Democratic incumbent—seemed extremely cordial as neither politician had any sharp comments, at this point, on President Reagan's program.

Ariyoshi said the supplementary budget he sent to the lawmakers this year takes into consideration federal budget cuts that were in effect when the state's financial document was drafted last fall.

AS LONG AS no new federal cuts are made that would take effect immediately, the governor said he was confident that the state would be on sound financial ground until the completion of the current fiscal year June 30.

"All the assumptions made about the president's 'New Federalism' are just that," Anderson said, "just assumptions or political rhetoric."

Anderson and Ariyoshi agreed that it would be wise for the Legislature to hold off any legislative action until Congress has had time to complete its work on the federal budget.

"We ought to take an wait-and-see attitude," the governor told reporters. "We should not guess about where the cuts are going to be."

"That is what I have been saying all along," Anderson said. "It just would be too premature to outguess Congress at this point."

The governor said there was no mention made during yesterday's Senate caucus of whether the Legislature would convene a special election year meeting after the present session adjourns April 23 to consider federal budget cuts.

A similar meeting was held with the House Democratic caucus yesterday, the governor added.

Ariyoshi also said he briefed lawmakers about the proposed sugar deal under which a portion of Hawaii's crop could be sold to Japan rather than in the midwestern industrial market.

Governor 'skeptical' of plan to save sugar in Puna

Sandra S. Oshiro
d Charles Turner
ertiser Staff Writers

n influx of $13.8 million plus a handful avorable economic conditions might p sugar alive in Puna, a state consultant s reported, but Gov. George Ariyoshi s he's "very skeptical" anything of the d can be pulled off.

leanwhile, downstairs in the Capitol, an lustry-sponsored proposal to set up a $50 llion sugar subsidy fund cleared an initial nate committee hurdle, but still has a gh road ahead.

The governor's comments on the Puna uation came after he received a report s week by consultant Jack Keppeler, for- r Hawaii County managing director com- ssioned by Ariyoshi to look into the im- nding closing of Amfac Inc.'s Puna Sugar . on the Big Island.

n light of Keppeler's report, Ariyoshi said he was unsure whether the state could find someone willing to invest that kind of money into a company which has already proven unprofitable for its parent, Amfac.

"I have to say in all candor that at this point I'm very skeptical of the possibility of us 'keeping sugar going at Puna at this time," Ariyoshi told reporters.

The governor said Keppeler reported that the situation is "very serious."

Keppeler told the governor that sugar production could be maintained in Puna under certain conditions. Some of the land slated to be distributed to employees must be kept in production, many of the sugar workers must continue on the job and equipment now owned by the company must be turned over to employees at a reasonable cost.

On top of all of this, an investment of about $13.8 million will be needed to keep the operation viable, the governor was told.

Ariyoshi said he made no decisions on what the state should do at this point, but directed Keppeler to talk to local lending institutions about finding investors.

Senators and representatives yesterday came to grips with a proposal by the financially troubled sugar industry to set up a $50 million fund — using state dollars at first and industry contributions later — that would be used to subsidize money-losing plantations in bad years.

After voicing some misgivings, members of the Senate Agriculture Committee approved the sugar-fund bill and moved it on to the Ways and Means Committee, which handles all money-related matters. Approval by this second committee is needed before the bill gets a floor vote.

The Agriculture Committee amended its bill to provide for a minimum 6 percent yearly interest on loans to money-losing plantations from the so-called "sugar stabilization fund."

But the bill has its detractors. Sen. D.G. "Andy" Anderson, GOP leader and a probable candidate for governor, said he thought the $50 million "subsidy" was too expensive and premature. He said the proposal was "not well thought out at this point" and that the state might not have the financial capability to "go with a mini-Sugar Act at this time."

On the other side of the Capitol, members of the House Agriculture and Employment Opportunities-Labor Relations committees listened to two hours of testimony on the same measure. Most of the representatives present at the hearing indicated a willingness to pass the measure on to the Finance Committee for further study, but that action requires majority approval on a committee report, a formal step that hasn't yet been completed.

State agriculture director Jack Suwa, who was on hand for the House hearing, was asked why he didn't testify and said: "This is not an administration bill . . . we're not saying we're against the bill." Suwa said the administration "needs more time to convince ourselves before we use tax dollars" for such a loan fund.

Much of the House hearing was devoted to testimony by Robert Hughes, president of the Hawaii Sugar Planters Association, who said the loan fund is needed because sugar lost $83.5 million last year and may lose the same amount in 1982.

Several committee members, including Rep. John J. Medeiros, R-25th Dist. (Kailua-Enchanted Lakes), questioned whether the industry shouldn't put up some collateral before getting loans from the fund.

"I think if you're going to borrow money, you also have to have collateral," Medeiros said.

Hughes said the issue came up in discussions within the industry but corporate attorneys advised against offering collateral on the loans.

The Honolulu Advertiser

Aloha!
Today is Thursday,
March 4, 1982

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Final Edition

Aloha!

Today is Sunday, March 7, 1982

Two-week sugar closing to affect 2,500 workers

By Jay Hartwell
Advertiser Staff Writer

Amfac Inc. yesterday announced that it would close four of its five Hawaii sugar plantations for two weeks starting March 15. The shutdown will be the first of two planned for 1982 and will affect 2,500 employees, management as well as field workers.

The company cited a first-quarter sugar loss that may reach a historic high as its reason for temporarily closing the Pioneer Mill Company on Maui, Kauai's Kekaha Sugar Company, Lihue Plantation and the Oahu Sugar Company on Oahu.

Spokesmen for the ILWU, the sugar workers' union, could not be reached for comment.

On Jan. 7, Amfac said it would permanently close its fifth plantation, the Puna Sugar Company on the Big Island, in a two-year phase-out.

Savings from the temporary shutdowns, announced yesterday, are essential, according to Robert Rostron, executive vice president and chairman of the Hawaii Sugar and Land Group.

Without the closings, he said Amfac's 1982 sugar losses would be equal to or greater than the $30 million deficit in 1981, even with a federal price support program and savings from the Puna phase out. (Rostron said the company earned $147.6 million in its 1981 non-sugar operations.)

Rostron also said the company had stopped all wage increases for executive and supervisory personnel in its sugar division this year, as well as declaring a moratorium on all plantation capital expenditures except critical operating functions.

The plantation shutdowns and wage and capital freezes were instituted in part because the spot price for sugar on the domestic market has decreased almost daily in the last two weeks, said Rostron, who added that a C&H sugar price outlook for 1982 is 10 percent lower than predicted earlier.

He also said the company decided to space out the separate, two-week closings in order to ease employee hardship and avoid upsetting the crop cycle. The shutdowns are not expected to significantly affect the supply of electricity that Maui and Kauai plantations are contracted to produce, said Rostron.

SEN. SPARK MATSUNAGA

The Honolulu Advertiser

Final Edition

Aloha!

Today is Thursday, March 18, 1982

House gives OK to sugar subsidy

But 2 ag tax-break bills suffer setback

By Jerry Burris
and Sandra S. Oshiro
Advertiser Government Bureau

On Molokai fresh pineapples rot in the fields for lack of a market.

On all islands sugar plantations are closing, threatening to close or cutting back on operations because sugar cane in Hawaii is just not a profitable business these days.

Smaller growers face substantial marketing problems and continued competition from much bigger "agribusinesses" on the Mainland.

At the Hawaii Legislature, these gloomy signals have produced a stack of proposals that would loan tax dollars to sugar growers, give farmers a tax break, create public subsidies or otherwise create a supportive relationship between government and the important agricultural industry.

Many of those bills, including the keystone sugar subsidy "stabilization" fund proposed by the Hawaii Sugar Planters' Association (HSPA), were approved in either the House or Senate during floor votes last night.

However, two agriculture tax-break bills were pulled back at the last minute in the Senate, apparently because some lawmakers felt they were going overboard in their generosity to the troubled agriculture industry.

The two are a five-year excise tax holiday for pineapple growers and a multimillion-dollar investment tax credit plan for agricultural industries.

That still left a long list of agricultural support legislation moving at the Legislature, which in total would be worth millions to large and small farmers statewide.

The sugar subsidy bill, debated and passed by the House, now goes to the Senate.

House Minority Floor Leader Fred Rohlfing, speaking against the "stabilization" bill, said there was "little question" of the contribution sugar has made to the state. But he added "there are still real questions of the underlying condition of the sugar industry."

Rohlfing suggested the sugar companies pledge stock or agree to a mortgage on their land in exchange for state commitment to the fund.

The subsidy bill passed with Reps. Robert Dods, Gerald deHeer, Kina'u Kamali'i, William Monahan, Virginia Isbell, Tony Narvaes, Donna Ikeda, James Wong, John Medeiros, Michael Liu, Whitney Anderson and Rohlfing voting no.

As originally proposed, the "stabilization" program would have the taxpayers put $20 million of public dollars into a fund from which sugar plantations could draw during profitless years. Over the long haul those interest-free loans would be repaid and once the industry got back on its feet, it would replace the taxpayer dollars with $50 million of its own.

All references to a specific amount of money have been deleted and the skeleton bill moved ahead in in hopes a compromise arrangement can be worked out.

But even if the fund idea dies entirely, the sugar industry may get some help from government and the taxpayers this year. One bill cuts the tax on fertilizer and other agricultural raw materials from 4 percent to ½ of 1 percent.

That's worth around $4 million a year to the agriculture industry as a whole.

Lawmakers last night also approved loan programs for both big-scale sugar plantations and independent growers. Those loans of public tax dollars would be at low interest rates and are separate from any kind of special subsidy fund.

Stocks
'ow up 4.20 to 827.63 in
ive trading.

Stock tables on E-2
Business News on E-1

Honolulu Star-Bulletin

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Home
★★★★

Oahu—25 Cents
Neighbor Islands—30 Cents

VOL. 70, NO. 84 Six Sections Honolulu, Hawaii Thursday, March 25, 1982 • 84 Pages

ayoffs Leave Many Sugar Workers Short of Money

By Ellen Dyer
and Peter Wagner
Star-Bulletin Writers

igar workers on the Neighbor Is-
s, laid off for two weeks starting
rch 15 in a cost-cutting move by the
r plantations, say they are spending
time applying for unemployment
pensation, looking for other jobs and
puttering around their houses.

e layoffs have left many workers
cially strapped, and union members
Pioneer Mill on Maui are to vote today on using some $158,000 in union funds to tide them over.

Union treasurer Florendo Ancheta said many workers need the loans because they have mortgages and the layoffs have "adversely affected their income."

The layoffs, ordered by Alexander & Baldwin Inc. and Amfac Inc. earlier this month, affect 4,300 sugar workers — about half of those employed in the state's sugar industry.

Amfac now has 2,500 workers on furlough from its sugar plantations — Oahu Sugar Co. on Oahu, Pioneer Mill Co. on Maui, and Kekaha Sugar and Lihue Plantation on Kauai.

A&B has idled 1,885 workers at Hawaiian Commercial & Sugar Co. on Maui and McBryde Sugar Co. on Kauai.

The union members, who are represented by the ILWU, average $249 a week in wages plus benefits worth about $125 a week. During the layoffs, the union members are entitled to keep their medical benefits, and management and ILWU members also qualify for unemployment compensation.

SINCE THERE is a one-week waiting period to qualify for state unemployment benefits, the workers will receive unemployment compensation only for the second week of the layoffs. The maximum amount they can receive is $163 a week, state labor officials have said.

Some of the 1,800 sugar workers on Kauai affected by the layoffs say they are worried by the situation and have spent the time off looking for other jobs. But many interviewed this week are simply riding it out with little apparent concern, collecting unemployment compensation, puttering around their houses and making small repairs.

On Maui, where about 1,500 workers have been affected by the layoffs, "everybody is coping," says ILWU representative Domingo Alboro.

Alboro, who represents Pioneer Mill workers, said many of them already have part-time jobs and some of their spouses work part or full time. While the lost pay from the layoffs is a hardship on the workers and their families, Alboro said, he'd rather see the plantations closed temporarily than per
nently.

"For us it is not too bad, but very bad for some of the workers don't have part-time jobs," said Es
Clarion, 31, whose husband Rosari
is a truck driver for Pioneer Mill

ROSARIO CLARION owns and o
ates his own taxi cab. His wife work
a house maid at Kapalua.

The Clarions have four children,
12, 10, 8 and 5. Rosario Clarion no

Turn to Page A-11, Col 1

Sugar Layoffs Affecting Many Workers

Continued from Page One

driving his taxi seven days a week to supplement the family's income. Even so, he does not believe he can match the estimated $800 he will lose in plantation wages.

Estrella Clarion said she is optimistic that the mill will not close permanently.

KEEPING BUSY—Federico Fagarang, a field worker at Lihue Plantation on Kauai, has spent part of his time off making repairs around the house. —Star-

Her father-in-law has been working for Pioneer Mill since 1946, and while there has been talk over the years of closing, "now it's still going so we don't believe it's going to close," she said.

Victor Agbayani, 34, a carpenter for Pioneer Mill, said he has found himself in an unusual situation during the layoff. He had injured his right index finger in an accident at his home and had been receiving sick pay. But that has been canceled during the layoff period.

Now there's a question as to whether Agbayani is eligible for unemployment compensation, he said. One of the requirements for unemployment compensation is that a person be able to work, but Agbayani is unable to work for the time being, Alboro said.

"Something's got to be worked out," Albore said.

AGBAYANI HAS two children, and his wife works full time. He estimates he will lose from $700 to $800 in wages during the two weeks, which will set him back on saving for the house he hopes to buy.

But "with my wife's pay, we can take care of that . . . it will be real hard, but we can stretch somehow, I hope," he said.

Dave Lopes, 31, is a mechanic at Pioneer Mill and vice chairman of ILWU unit 2103. Lopes said he does not have a second job and has been "just staying home."

Lopes is making payments on a house lot and the lost wages will set him back.

But his wife works as a seamstress and that helps, he said. The couple has two children.

Of his co-workers, Lopes said most are looking for part-time jobs and are hoping things will get better in the sugar industry soon.

Pepito Ragasa, ILWU representative for HC&S workers, echoed the views of Pioneer Mill's Alboro. The lost pay is "a great problem" and a "hardship for the employees, but it is better to do this than close permanently," Ragasa said.

However, unlike Pioneer Mill employees, many HC&S workers do not have part-time jobs, Ragasa said.

Most are drawing unemployment, he said.

DOMINGO BARBOSA, 60, of Kahului, a welder for HC&S, said he has applied for unemployment and has been staying at home. He said the layoff has not been a great hardship on his family.

Stan Miguel, a 33-year-old cane hauler

workers idled by that company. Contacted at his Hanamaulu home, Miguel said he has been restless and bored since being laid off, but he is not particularly worried about his job.

"Mostly, it's Lihue Plantation and Kekaha," he said. "They're hanging on by their fingernails more than us. I hear some of them are out there looking for jobs already."

Miguel said many of his fellow workers at McBryde feel that Amfac's two plantations on Kauai are in greater danger of closing down permanently than McBryde is.

"Our manager told us whoever sticks around the longest will survive," Miguel said. "He said sugar prices are bound to come up again. The strongest will survive."

FEDERICO FAGARANG, a 36-year-old furloughed field worker at Lihue Plantation, has spent part of his time off fixing window screens at his home. He says he is not anxious about his future.

"I don't think they'll close down now," he said. "Maybe in two years or three years."

If Lihue Plantation does close, Fagarang said he simply would find another job, "any kind of job."

Meanwhile, Fagarang and his friend, Villamor Ibanez, 26, another field worker at Lihue Plantation, are biding their time in relative comfort. Both live with relatives and they do not have mortgage payments or other large debts.

Fagarang is not sure what kind of work he could find outside the sugar industry should the need arise, but Ibanez, a Kapaa resident, said he has had past experience in hotel work and has worked in pineapple and factory jobs.

Ibanez has a 1-year-old daughter. Fagarang has three children, the oldest a 17-year-old high student at Kapaa High School.

McBRYDE'S MIGUEL, the father of three, said he isn't happy about his unexpected two-week vacation. Even the weather has been bad, taking away the opportunity for fishing or having outdoor fun, he said.

But he is hopeful about the future.

"All we can do is hope for the best," he said.

This year Miguel saw his annual raise cut in half, a "give and take" measure between the union and sugar company

he is willing to bend and serious pay cuts might send him out in search of a better-paying job in another industry, Miguel said.

"I drove trucks . . . before I went to work at McBryde," he said. "I could probably do that again. But I'd really like to stick it out with this job."

HE'S NOT WORRIED—Even though Stan Miguel, a cane hauler at McBryde Sugar on Kauai, has been laid off since March 15, he is optimistic that sugar prices will rise and his company

MONDAY, APRIL 5, 1982

THE WALL STREET JOURNAL.

Sugar Industry In Hawaii Is Threatened

By WILLIAM R. WOOD
Special to THE WALL STREET JOURNAL

KEEAU, Hawaii—Daniel Cobile joined Amfac Inc.'s Puna Sugar Co. as a welder five years ago because he wanted the security of working for a big, established company.

But a world-wide sugar glut and depressed sugar prices have intervened. Amfac plans to close the 84-year-old mill over the next two years, and Mr. Cobile, who is 53, and his 479 coworkers are preparing to become unemployed.

Sugar has provided much of Hawaii's wealth for the past century, and it has become a symbol of the islands. The state produces about one million tons of the world's total annual output of 95 million tons. While tourism is now Hawaii's top industry, sugar [illegible] nearly 10% of the jobs held by the islands' 400,000 workers.

"I can't imagine Hawaii without sugar," says Henry A. Walker Jr., the 59-year-old president and chairman of Amfac.

Cane Fields Could Vanish

But the industry is posting large losses, and some analysts speculate that Hawaiian cane fields could eventually vanish. Taken together, sugar producers in the state had a loss of $83.5 million in 1981. The price paid for sugar at the refinery dropped to just above 18 cents a pound while production costs rose to 19.3 cents a pound plus a penny a pound for shipping. Forecasters predict that surpluses will continue to depress prices in 1982 and beyond.

The sugar losses have hurt the balance sheets of Hawaii's diversified "Big Five" corporations, which own plantations. The state's biggest producer, Amfac, got 94% of its $2.15 billion in 1981 sales from hotels and other nonsugar operations. But its $30 million sugar loss turned a 30% earnings rise in nonsugar operations into a 42% drop in overall corporate profit. Hawaii's second largest grower, Alexander & Baldwin Inc., reported a 66% earnings decline from a year earlier after a $21.6 million loss on sugar.

Both companies recently closed operations for two weeks, laying off [illegible] workers temporarily. Two other big producers are owned by offshore companies—C. Brewer & Co. by I.U. International Corp. of Philadelphia and Theo H. Davies & Co. by Hong Kong-based Jardine, Matheson & Co. Robert H. Hughes, president of the Hawaiian Sugar Planters Association, is afraid that offshore holding companies will be even less tolerant of the continuing losses and shed their sugar operations altogether.

Problems in a Phaseout

The islands' demographics and land-use characteristics would complicate any phaseout. Hawaiian sugar workers are less mobile than workers elsewhere in shaky industries. "They can't just load up the family sedan and drive to the next state to look for work," says John W. A. Buyers, president of C. Brewer.

In addition, Hawaiian sugar growers haven't developed a crop to succeed sugar on the 220,000 acres now occupied by cane fields. Macadamia nuts, a high-priced delicacy, are a possibility. C. Brewer is already planning to convert 8,000 acres of cane field to macadamia nut production. But it takes a macadamia nut tree seven years to start bearing nuts and 15 years to reach maturity.

When Amfac decided to close Puna Sugar, its production costs—23.3 cents a pound—were well above the average in Hawaii. Yields were poor, and its $9 million operating loss last year seemed likely to be repeated.

Some veteran workers at Puna Sugar blame Puna's losses on mismanagement, but Amfac's executive vice president, Robert Z. Rostron, says, "The only management mistake we made at Puna was in not deciding to close it down 10 years ago." The company denies there was any pressure from Gulf & Western Industries Inc., which holds 25% of Amfac's stock and produces its own sugar in the Dominican Republic and Florida.

Worker Protests Avoided

Amfac and the rest of the industry are trying to use the example of the Puna closing to gain leverage with state legislators and labor. The industry has asked Hawaii to set up a repayable $50 million relief fund for ailing plantations, but legislators have been cool to the idea. Growers have also asked the International Longshoremen's and Warehousemen's Union to waive a 10% wage increase, but the union has only agreed to defer half the raise for six months.

Amfac has also hinted that its Oahu Sugar Co. mill faces the same fate as the Puna mill unless local government pays for a controversial $100 million waste-burning power plant on the Oahu site.

Amfac probably avoided explosive worker protests over the Puna closing only because of an unusual concession. It plans to subdivide the sugar plantation and give each regular worker five acres of land in addition to severance pay. If the employes decide to leave the cane in the field, Amfac will let them use the old Puna mill to process it for a token $1 a year.

HAWAII TRIBUNE-HERALD

Beginning of end starts today at Puna Sugar Co.

By Gene Tao
Tribune-Herald staff writer

KEAAU—One hundred and twenty-one Puna Sugar Co. workers were laid off today as Amfac took the first in a series of steps to end the life of the 83-year-old plantation.

Employee relations director Carmelito Arkangel said the workers finished their last shift Wednesday afternoon.

"The final planting (for the sugar company) was completed Tuesday," Arkangel said. "The last harvest will be about two years from now."

Because of sharp losses at its Keaau sugar operation, Amfac announced in January that it will close the 16,000-acre plantation in 1984.

The planned shutdown will leave about 500 workers jobless.

Both the sugar company executives and workers' union representatives from the ILWU have set up a joint committee to help the workers apply for unemployment benefits.

ILWU acting district director Wataru Kawamoto said a temporary station will begin operating Monday at the ILWU hall on Lanikaula Street to process the applications for jobless benefits.

Mayor Herbert Matayoshi said he has appointed an "in-house" task force, headed by Managing Director Megumi Kon, to help the workers look for other jobs.

"We'll be going out to help them find jobs," Matayoshi said. "We also will help them adjust to the changes."

Kon said the service center at the ILWU hall will remain there Monday through Thursday.

"From 8 to 9 a.m., there will be interviews for applications for unemployment benefits," he said.

"From 9 to 12, the University of Hawaii Extension Service will interview them to collect some demographical data."

After the data is collected, there will be a determination whether retraining is needed to help the workers look for new jobs, Kon said.

Puna Sugar, known first as Olaa Sugar, was founded in 1899. Keaau thrived on sugar while the plantation was in its heyday with 1,500 workers.

When mechanization came in 1953 and 1954, the workforce at the plantation was sharply reduced. Keaau's population also has been dwindling ever since—from more than 4,000 to 1,334 by 1960, 901 by 1970 and 776 by the last headcount by the U.S. Census Bureau in 1980.

After Amfac announced its plan to shut down the plantation in 1984, Gov. George Ariyoshi named former Puna Sugar field superintendent Jack Keppeler to find out whether the plantation can be saved.

In his recommendation to the governor, Keppeler said the sugar company could make money at a reduced scale of operation if the union, management and landowners are willing to cooperate in saving the plantation. Ariyoshi has been skeptical about the recommendation and has not made a decision one way or the other.

In announcing the shutdown plan, Amfac president Henry Walker said his company would offer each worker five acres as part of severance benefits. A bill enabling the state to acquire the sugar land and then divide it into five-acre agricultural park lots for the workers right now is stalled in the State House.

Rep. Yoshito Takamine, chairman of the House Committee on Agriculture, said Wednesday state and private attorneys would examine the bill because of possible legal and financial problems.

The bill was supposed to be heard in the House Finance Committee Wednesday, but Takamine said he has asked the committee to wait until more information is gathered.

If the attorneys cannot answer the legal and financial questions by this weekend the bill probably will not move out of the Finance Committee, Takamine said.

"If it (the bill) doesn't prove workable, I would like to recommend more study during the (legislative) interim," he said.

When the measure was first heard in a joint meeting of the House committee on Agriculture and Water, Land Use, Development and Hawaiian Affairs, Takamine suggested that it be held up.

"That's the reason it wasn't originally reported out," Takamine said. "Then I said, 'Hey, we have a few more days, let's take another crack at it.'"

According to Takamine, the intent of the bill is to cut through county regulations so that a private agricultural park is possible without a tremendous amount of outside improvements such as roads for each of the five-acre lots.

"There's no way you're going to meet county standards and expect to farm," he said.

Noting that Matayoshi has taken a strong stand against allowing large landowners to develop subdivisions like those proposed for Puna and then selling lots for speculation purposes, Takamine said:

"We're taking the position that speculation and this (bill) are two different things.

"Here it's a different matter. It's the survival of a community."

Matayoshi said he would not oppose the agricultural park idea if the state is willing to meet the county's agricultural subdivision standards.

"But I'm against speculation," he told the Tribune-Herald. "I'm opposed to proposals for cutting up the land and selling the lots for speculation purposes."

Senator MATSUNAGA. Certain articles also relate to State attempts to cope with the resulting unemployment and economic problems. The Governor of Hawaii, the Hawaii State Legislature, the four county mayors and councils, in effect, all levels of government are gravely concerned by the plight of the Hawaiian sugar industry. Everyone is seeking alternative means of supporting the industry over a difficult trading and marketing period.

One of the sugar companies, as I stated earlier, hopes to keep its sugar plantations afloat through a joint venture operation, but that effort is barred for all practical purposes because of the restriction under the tax accounting provision. In 1976, Mr. Chairman, I proposed a codification of the annual accrual accounting method for Hawaiian sugar companies. This accounting method had long been sanctioned by the Internal Revenue Service, and the Congress adopted my proposal as part of the 1976 Tax Reform Act.

When I proposed the current provision of the law I limited its coverage to corporations. This limitation was intended to preclude any tax abuse of the annual accrual method of accounting by individuals in a tax shelter scheme. As provided in the Tax Reform Act of 1976, the annual accrual method of accounting may be used by corporations only. As later events have shown, I had overlooked the need to include corporate joint ventures. Under current law, while corporations are permitted to use the annual accrual method of accounting, corporations acting in joint ventures are not.

My bill, S. 1923, would amend the law to permit corporate joint ventures to utilize the annual accrual method of accounting. In line with the antitax abuse provisions in the original provision which I proposed, the annual accrual method of accounting would remain unavailable for individuals, personal holding companies, or closely held corporations.

Considering the dire situation of the sugar industry in Hawaii and the overall grave concern over the ailing industry throughout my State, S. 1923 would provide a small but needed and welcome assistance to the people of Hawaii. The revenue loss would be insignificant if not nonexistent.

The committee's favorable consideration of my bill would be deeply appreciated.

Thank you very much, Mr. Chairman.

Senator PACKWOOD. Thank you, Senator.

Mr. Griffith.

STATEMENT OF RICHARD L. GRIFFITH, CADES, SCHUTTE, FLEMING & WRIGHT, HONOLULU, HAWAII, ON BEHALF OF OAHU SUGAR CO., LIAHUI PLANTATION, KEKAHA SUGAR CO., AND PIONEER MILL CO., HAWAII, ACCOMPANIED BY WILLIAM A. KRUSE, ASSISTANT TREASURER AND DIRECTOR OF TAX RESEARCH AND PLANNING, AMFAC, INC.

Mr. GRIFFITH. Mr. Chairman, I thank Senator Matsunaga for that admirable statement, and it makes my task very easy. There is very little I can add to what he said.

Mr. Kruse, who sits here with me, and I represent four major growers on four different islands in Hawaii, and we are very interested in this bill because it would permit our sugar growers to attract outside investment capital. We are trying to solve the problem that Senator Matsunaga described in the private sector, through private investment. This would permit us to do that.

It would also permit one other thing that Mr. Glickman did not suggest, and that is that on one of the islands we are talking with another grower, and we have to have two growers enter into a joint venture to share certain expenses, and to share a mill. It would permit them to eliminate a lot of duplicate expense if those two growers could enter into a joint venture. Senator Matsunaga's bill would permit that.

We respectfully believe this bill would cost nothing to the U.S. Treasury, and it would enable us to help solve our own problems in the private sector.

I thank you very much for your consideration. I think Senator Matsunaga said it all.

Senator PACKWOOD. Thank you, sir.

Did you hear my question to the Secretary about what was the logic in the differentiation?

Mr. GRIFFITH. Yes.

Senator PACKWOOD. And the response he gave was the 10-year history involving corporations?

Mr. GRIFFITH. Yes.

Senator PACKWOOD. Would you address yourself to that question?

Mr. GRIFFITH. I would be glad to, and I would like to point this out. The 10-year history was put into the original law, Senator, to limit that application to those taxpayers who had already been using this method under sanctions from the Internal Revenue Service. They all had had rulings. So it was put in there so that tax shelters could not come in and use it, that sort of thing.

I disagree very strongly with the Secretary's comments because under Senator Matsunaga's bill, this method could still only be used by those plantations that now use the bill. The only thing it does is permit them to attract outside corporate investors. But the present plantations would have to be a member of that joint venture to take advantage of Senator Matsunaga's bill.

And in the one case I mentioned where two plantations may pool their resources, they both are using that method. So I strongly disagree with the position taken by the Secretary.

Senator PACKWOOD. Mr. Matsunaga.

Senator MATSUNAGA. I wish to commend Mr. Griffith for his presentation. As a matter of fact, it was upon his urging that I introduced the initial bill which is now law and unfortunately both of us overlooked the possibility of joint ventures wishing to take advantage of the law which only individual corporations are permitted to take.

And I agree with Mr. Griffith, if representations have been made otherwise by the Treasury, that this would in no way entail loss of revenues. The corporations intended to be permitted to use the new provision must be those already using the annual accrual accounting method.

Mr. GRIFFITH. I thank the Senator.

Just one last point, Mr. Chairman. We are a very progressive, efficient industry in Hawaii. I think we may be the most efficient sugar farmers in the world. But we are being victimized by selling in a free market that is being subjected to dumping, as Senator Matsunaga says, and we have no control over our pricing. Our costs to produce a pound of sugar is 19 cents. The Common Market countries are subsidizing their farmers to the tune of 29 cents a pound, and their surplus they are dumping in the world market for whatever price it will bring. And on Monday, the spot price was 10 cents, and the European producers in large part are creating this problem. They are dumping this sugar into the marketplace.

Senator **Packwood**. How much does the European Community produce of the world's sugar production?

Mr. **Griffith**. Oh, not a great deal. I do not know the total percentage, but the problem is that the other countries have all had an established market. The Europeans used to be an importer of sugar, but because of their subsidy they are now producing a surplus, and that additional surplus in the market has driven the price down.

Senator **Packwood**. Would the total production be 5 percent, 2 percent, 8 percent?

Mr. **Griffith**. Oh, I would say well over 10, well over 10.

Senator **Packwood**. Is it?

Mr. **Griffith**. Yes, yes.

Senator **Packwood**. Senator Durenberger.

Senator **Durenberger**. With you, I think the cost of producing sugar from sugar beets might be slightly over cane sugar——

Mr. **Griffith**. Yes.

Senator **Durenberger**. But you have accurately portrayed the problems, and you should be indebted to your Senator for continuing to bring those of us who have an interest in agriculture in this very broad Nation together on these issues.

I think the last time I looked at the world price it was 9.2, and——

Mr. **Griffith**. Oh, that is terrible, that is terrible.

Senator **Durenberger**. I do not want to give you that depressing news, but——

Mr. **Griffith**. I am sure the beet people cannot even come close to that. Their costs must be 17 or 18 cents, maybe 19, which is our cost, 19 cents.

Senator **Durenberger**. Thank you.

Senator **Matsunaga**. Mr. Chairman, for the record I might make a correction. The cost of producing sugar in the European Community runs about 29 cents, and of the 29 cents, 14 cents in the case of France, for example, comes from the Government. The Government pays to the grower, subsidizes it. And despite the cost of 29 cents, they bring that sugar into the United States through third party nations and sell it here for as little as 8 cents a pound. At one time it was down to 8 cents, then it was 9 cents, then 10 cents, which is definitely unfair competition, and of course, as I noted in my statement, the sugar companies are appealing through section 301 of the Trade Act.

However, until we get such relief, unless we get relief such as that we are asking for, the chances of the industry going under completely would be accelerated really, and I think we can at least do this much because we are permitting the industry itself to help itself. We are not in any way subsidizing our own industry. And I think we ought to be because, as you know, sugar is an import commodity. We import 45 percent of our sugar and produce only 55 percent.

Supposing there was an embargo of sugar by a cartel formed among the nations which export sugar to us. Just imagine the lines that would be formed in the supermarkets for a pound of sugar when in 1973–74 you recall we were importing only 3 percent of our oil and there was an embargo of oil from the Middle East, the long lines of cars at service stations. Just imagine what an embargo of 45 percent of our sugar would do.

We should be developing our own home industry, really, and we are not doing it.

Senator **PACKWOOD**. Can we make gasoline out of sugar?

Senator **MATSUNAGA**. Oh, yes, alcohol.

Senator **PACKWOOD**. We might be able to solve that problem.

Mr. **GRIFFITH**. Thank you very much.

[The prepared statement of Richard L. Griffith follows:]

STATEMENT OF RICHARD L. GRIFFITH
IN SUPPORT OF S. 1923

SUMMARY OF POINTS

1. S. 1923 is narrowly drafted to accomplish a single purpose: to permit those farmers presently using the "annual accrual method" of accounting under Section 447(g) of the Internal Revenue Code to continue using this method in a joint venture with other corporations.

2. To our knowledge the Hawaiian sugar and pineapple growers are the only taxpayers using this accounting method.

3. Enactment of S. 1923 would enable Hawaiian sugar growers to attract fresh investment capital from other corporations to stem the cash drain caused by heavy operating losses due to the present depressed price of sugar.

4. This Bill should cause only a nominal revenue loss to the Treasury because most Hawaiian sugar growers own and operate other business enterprises which are operating at a profit; and can absorb the losses from sugar.

5. Since the United States is the only country in the world that makes no attempt to protect its sugar industry, and since sugar is an earner of hard currency badly needed by so many foreign nations, the U.S. has become the world's sugar dumping ground. For example, the Common Market Nations subsidize and encourage the production of excess beet sugar for shipment to the United States.

6. The Hawaiian sugar growers are the most efficient and productive in the world, but are at the mercy of an erractic world market dominated by subsidized growers in other countries.

INTRODUCTION

This statement is respectfully submitted by Richard L. Griffith, an attorney in Honolulu, Hawaii, on behalf of Hawaiian sugar growers, in support of S. 1923. This bill would amend Section 447(g) of the Internal Revenue Code (the "Code") to provide that the annual accrual method of accounting for corporations engaged in farming be extended to corporate joint ventures.

Section 447(g) was added to the Code as part of the Tax Reform Act of 1976 to codify the accounting method then (and now) used by most of the Hawaiian sugar plantations, a method long sanctioned by rulings from the Internal Revenue Service. In brief, this method permits the current deduction of crop costs even though the cane sugar crops have a two-year or more growing cycle and thus straddle more than one taxable year.

Section 447(g) in its present form is drafted so that the annual accrual method can only be used by those taxpayers who have used it for at least ten years prior to 1976.

Section 447(g)(3) of the present law provides that if a corporation has acquired substantially all of the assets of a farming trade or business from another corporation in a transaction in which no gain or loss was recognized, then the transferee corporation shall be deemed to have used the "annual accrual method of accounting" during the period (prior to such transaction) for which the transferor corporation had, in fact, used such method of accounting.

NARROW PURPOSE OF S. 1923

S. 1923 would accomplish a single, narrow purpose: to permit a partnership of corporations (other than Subchapter S corporations and personal holding companies) to use the method if (and only if) the partnership acquired substantially all of the assets of a farming business from one of its corporate partners in a Section 721 transaction, and the contributing partner used this method immediately before the transfer. Subchapter S corporations and personal holding companies have been purposely excluded from the bill so as to prevent the use of this method in tax shelter situations.

REASON FOR S. 1923

The Hawaiian sugar plantations suffered losses of $83.5 million on their 1981 crop. Our best current estimate for the 1982 crop is an additional loss of $68 million.

Losses of such magnitude cannot be long sustained, as they are draining the sugar plantations of their cash resources. One major plantation on the Island of Hawaii, Puna Sugar Company, has announced that it must go out of business because of the low price for sugar. A number of other growers have announced temporary shutdowns.

Certain of the growers are negotiating with other corporations having substantial cash assets to enter into a corporate joint venture to operate the plantations and thus provide an infusion of cash. They are seeking a private sector solution, not a government-financed solution.

SUGAR'S KEY ROLE IN HAWAII

Sugar is one of the three largest employers in Hawaii, along with the tourist industry and the Federal Government. Some 29,900 jobs in Hawaii depend on the sugar industry for their existence. With total employment of 385,000, these 29,900 jobs created by the Hawaiian sugar industry represent nearly 8% of total civilian employment. Moreover, three-quarters of the crop land in Hawaii is devoted to sugar cultivation.

Dr. Thomas K. Hitch, an economist in charge of the research division of First Hawaiian Bank and a member of the President's Council of Economic Advisors under President Truman, recently published a paper, "How the collapse of the sugar industry would impact on Hawaii's economy," pointing out that such a catastrophe would have a ripple effect in Hawaii which would ultimately result in unemployment in this State at levels more than double the current rate. Furthermore, the State's tax revenues would decline by 10%. Dr. Hitch further noted that:

> "Hawaii would clearly become a disaster area if employment were to drop by 8% and State general fund tax revenues were to suffer a double-digit percentage decline. There would be no way under these circumstances that Hawaii could cope with its welfare load

or maintain anything like the essential services required by its citizens.

"State welfare costs have more than doubled in the last five years, and are running now at $250 million a year. If even half of those supported by the sugar industry were forced to go on welfare, the State's costs would increase at least 17 percent, to nearly $300 million. This would represent almost 17 percent of the total State budget.

"It should be added that while a sudden collapse of the sugar industry would be disastrous to the State's economy, it would be even more devastating to several of the islands in the State in which sugar is the prime economic activity. For example, over 96% of Kauai's crop land is in sugar and applying the above analysis to the Island of Kauai we find that a collapse of the sugar industry would raise unemployment on that island to 20 percent. Similarly, the Island of Hawaii has over 82 percent of its crop land in sugar, and collapse there would raise unemployment to 16 percent. The situation is not too different on Maui which has over 47,000 acres in sugar. Collapse of the sugar industry there would raise unemployment to 14 percent of the labor force.

> "The conclusion is that the closing of the sugar industry would be devastating to the State's economy and would result in the almost complete collapse of the neighbor island economies.
>
> "While it is possible that some sugar-producing areas in the United States might be able to convert to other agricultural crops, such is demonstrably not the case in Hawaii and hence the loss of income, jobs, and land use would be permanent here. Studies, experiments, and history all combine to indicate that most if not all land now in sugar would not find remunerative agricultural uses if sugar ceased being grown."

The Hawaiian sugar growers are not only important as employers, they are also important suppliers of electrical power, which is produced by burning the by-product bagasse and other materials to fuel a boiler, the steam from which drives a turbogenerator. Over 10 percent of Hawaii's electrical power is now produced by the sugar growers.

IMPACT OF "FREE MARKET" IN SUGAR

When Congress allowed the U.S. Sugar Act to expire at the end of 1974, U.S. sugar producers were placed in direct competition with producers in the free world sugar market. The United States is one of the few major sugar-producing, and also sugar-importing, countries that has no effective government regulation of the production and importation of sugar.

About five-sixths of the world sugar production is traded in "controlled markets," including most sugar that is consumed in the countries where it is produced, and about half of that is traded on the international market. These controlled markets involved such things as government ownership of all or portions of a sugar industry, quotas, price controls, subsidies, import restrictions, and long-term politically-motivated trade agreements that price sugar well above world sugar prices. Most countries have used these devices to insulate themselves from the "free" international sugar market, commonly referred to as the "world market".

The so-called "free world market" for sugar is a very "thin" market that includes only about one-sixth of the world's sugar. When sugar is abundant, the free world market becomes a distress area for the dumping of surplus sugar produced under subsidies in some countries and in excess of controlled market needs in those countries. Consequently, the price of sugar in this "free world market" often falls below the cost of production. At the present time the price of sugar (at 16¢ or less per pound) in relation to the cost of production in Hawaii (at 19 or 20¢ per pound) is the lowest it has been at any time since the 1920s.

SUGAR PLANTATION OPERATIONS

The sugar plantations in Hawaii grow sugarcane, harvest it, and process it into raw sugar and molasses. Storage capacity at the mills for the raw sugar is minimal, so that the plantations have only a small inventory of raw sugar and molasses at any time during the year. Title to the raw sugar passes to a cooperative marketing organization when loaded aboard ground transportation equipment for movement from the mills to shipping terminals in Hawaii. Substantially all of the raw sugar is then shipped to the mainland where it is refined and marketed.

The total acreage devoted to the cultivation of sugarcane in Hawaii is fairly constant from year to year because there are practical limitations on the amount of land and water available for farming.

The land under cultivation is divided into fields which, largely because of contour, are not uniform in size or shape. Some contain only a few acres; others contain several hundred acres. Each sugar plantation has a great many fields. A field planted in sugarcane generally yields three crops over a period of about six years. The first crop is harvested approximately two years after planting. The second crop, which grows from the stools of the sugarcane plants after the first harvest, and therefore is a ratoon crop, maturing approximately two years later. The third crop which develops from the same source after the second harvest, and therefore is likewise a ratoon crop, requires still another two years to reach maturity.

The sugar plantations plan their field operations so that about the same number of acres of cane are planted and harvested each year. There is an off-season of from several weeks to upwards of three months, usually late in the year and/or early the following year, during which no harvesting or milling operations take place and during which major mill repairs are made. As a result of the mill shut-down at year end, the plantations have no inventory of raw sugar at the end of their taxable year.

The principal kinds of sugar plantation expenses related to growing crops--the items with which this statement is concerned--are the following:

Clearing, plowing and preparing for new crops.

Planting new crops.

Repairing and replanting ratoons.

Weeding.

Irrigating.

Fertilizing.

Indirect expenses (employee benefits, supervision, repairs and maintenance, depreciation, taxes, insurance, etc.).

It is to be noted that because of the relative continuity of sugar plantation operations, all of these expenses recur annually, although the amounts vary from year to year. When economic conditions are relatively stable, the annual fluctuations are not great.

RATIONALE FOR ANNUAL ACCRUAL METHOD

Most sugar plantation expenses are comprised of items that do not enter identifiably into the product of the plantations. Seed is cut from the plantation cane, and the cost of purchased seed is very minor. Of the direct expenses, labor (for planting, plowing, weeding, irrigating, and fertilizing) is much the largest element. Of the purchased materials water, fertilizer and herbicides are by far the most important items. It is impossible to identify any of these in the growing cane or in the raw sugar and molasses which constitute the finished products of the plantations.

Because of the nature of most of the expenses, it would be difficult to allocate them exactly among fields and crops. Even some of the direct expenses can be assigned to specific crops only in an arbitrary manner.

Any farming operation is subject to natural hazards, and the Hawaiian sugar plantations are no exception. All of the plantations are affected by variations in weather, drought, flooding or wind action, and a small number have been and may hereafter be affected by lava damage or tidal wave action.

HISTORY OF ANNUAL ACCRUAL METHOD OF ACCOUNTING

All of the major sugar companies in Hawaii use the "annual accrual method" of accounting for growing crop expenses for both financial reporting purposes and income tax purposes. Under this method all sugar plantation expenses, both direct and indirect, are deducted from gross income (i.e., charged against revenues) as incurred. The annual accrual method requires that materials and supplies not be deducted for tax purposes until they are actually used by the plantation. For example, the cost of fertilizer or herbicides would not be deductible until utilized by the plantation.

Prior to adoption of the annual accrual method, the plantations used the "deferred crop method" of accounting for costs of growing crops. Under this method all such costs were deferred until the crops were harvested.

Some of the plantations began to use the annual accrual method for financial statement purposes as to a portion of their growing crop expenses--those classified as indirect expenses--prior to 1913; others did so during the 1920s; and still others did so during the 1930s. By 1937 all of the plantations (except one small unit which is on the cash basis) were using that method as to indirect expenses.

Eventually these companies extended the use of the annual accrual method to the remainder of their growing crop expenses, i.e., those classified as direct expenses. The following shows the years in which the present plantations began to use the annual accrual method with respect to all growing crop expenses, both direct and indirect:

1931 -- 1 plantation (but it did not adopt the annual accrual method for income tax purposes until 1937).

1934 -- 1 plantation.

1951 -- 5 plantations.

1952 -- 6 plantations.

1954 -- 3 plantations (but all of these adopted the annual accrual method for income tax purposes retroactively as of 1953).

The change from the deferred crop method to the annual accrual method for Federal income tax purposes by the one plantation in 1937 was made after receipt of a favorable ruling from the Commissioner of Internal Revenue permitting the change in method. Similarly, the change to the accrual method for Federal income tax purposes of the five plantations in 1951, the six plantations in 1952 and the three plantations in 1953 was made with the consent of the Commissioner of Internal Revenue.

The annual accrual method is a significant aid to management in controlling costs and expenses. This is especially important during a period of rising prices such as has characterized the economy for the past several years. For the same reason, this method facilitates budgeting and financing operations which necessarily are concerned with the flow of cash receipts from product sales and disbursements for plantation expenses and capital expenditures, rather than with the allocation of these items to crops in which were planted in past years or which will be harvested in future years. Because this method results in income statements that are readily understandable by employees, stockholders, bankers and the public, it is a great help in relations between management and those groups. This is most important in labor negotiations which have been extremely difficult for the plantations during recent years. The method is simple to operate, easy to understand, and economical. The plantations have been able to eliminate a substantial volume of costly detailed accounting work as a result of using this method.

Thank you for your consideration of this statement.

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Senator **Packwood**. Gentlemen, thank you very much for coming this distance. We appreciate it.

Senator **Matsunaga**. And thank you, Mr. Griffith. We do appreciate it very much.

Senator **Packwood**. The next is S. 473, and we have a panel consisting of Msgr. Lawrence Corcoran, Ms. Laura Lee Geraghty, Ms. Patricia Curran, Mrs. Harold David, and Joseph Mizger.

Senator **Durenberger**. Mr. Chairman, I would like to make a couple of remarks to the panel.

Senator **Packwood**. Senator Durenberger has an opening statement.

Senator **Durenberger**. Mr. Chairman, I very much appreciate the opportunity to take part in this hearing on S. 473, the volunteer mileage deduction bill, introduced by me and by Senator Kassebaum last February and cosponsored by Senators Cranston, Boschwitz, Kasten, and DeConcini.

Perhaps never in the history of this country has the role of charities and voluntary organizations been more important to our wellbeing. The nonprofit segment of the private sector reaches into almost every field of human interest, supporting a variety of institutions, many of which are represented here today.

Throughout my career I have had the good fortune to be involved in a wide range of public service organizations. They have given to me as much as I have given to them, and more, and these experiences have cemented my belief that the private sector is ready and willing to take on the many challenges facing us as a nation.

I see this is a rather long statement, Mr. Chairman.

Senator **Packwood**. Yes; I was looking at it, too.

Senator **Durenberger**. And the value of this hearing this morning will be in those who bring their personal feelings about this legislation to us, and so I will just ask that the balance of my statement be submitted to the record, and I thank you for giving us the opportunity to present the problem of mileage deductions.

Senator **Packwood**. Dave, thank you.

[The prepared statement of Senator Durenberger follows:]

OPENING STATEMENT
BY
SENATOR DAVE DURENBERGER
RE
VOLUNTEER MILEAGE DEDUCTION BILL

April 23, 2982

Mr. Chairman, I very much appreciate the opportunity to take part in this hearing on S.473, the Volunteer Mileage Deduction bill introduced by myself and Senator Kassebaum last February, and since co-sponsored by Senators Cranston, Boschwitz, Kasten, and DeConcini.

Perhaps never in the history of this country has the role of charities and voluntary organizations been more important to our well-being. The nonprofit segment of the private sector reaches into almost every field of human interest supporting a variety of institutions such as religious organizations, health clinics, civic organizations, museums and libraries, and social service organizations such as those represented here today.

Throughout my career, I have had the good fortune to be involved in a wide range of public service organizations. These have given to me as much as I have given to them, and these experiences have cemented my belief that the private sector is ready and willing to take on the many challenges facing us as a nation.

THE PURPOSE OF THIS VOLUNTEER MILEAGE BILL IS TO RECOGNIZE AT LEAST IN PART, THE VALUE OF THE CONTRIBUTIONS OF TIME AND ENERGY MADE BY THE MILLIONS OF AMERICANS LIKE THOSE HERE TODAY. YEAR BY YEAR, AMERICANS HAVE GIVEN ENORMOUS CONTRIBUTIONS IN LABOR AND MONEY TO SUPPORT PRIVATE CHARITABLE ACTIVITIES, BUT NOT NEARLY AS MUCH AS WAS NEEDED TODAY. CONTRIBUTIONS OF TIME AND MONEY ARE NOT KEEPING UP WITH RAPIDLY GROWING NEEDS IN HUMAN SERVICES.

ONE OF THE DISINCENTIVES TO THE CONTRIBUTION OF PERSONAL SERVICES IS THE POLICY OF THE INTERNAL REVENUE SERVICE RELATING TO MILEAGE ALLOWANCES. THIS POLICY PROVIDES THAT INDIVIDUALS WHO CONTRIBUTE THEIR TIME AND LABOR TO CHARITABLE ACTIVITIES AND USE A PERSONAL AUTOMOBILE MAY DEDUCT A STANDARD RATE OF 9 CENTS PER MILE AS A CHARITABLE CONTRIBUTION. OR, IF THEY CHOOSE, THEY CAN INSTEAD DEDUCT THEIR ACTUAL UNREIMBURSED EXPENSES FOR GAS AND OIL. PARKING FEES AND TOLLS ARE DEDUCTIBLE IN EITHER CASE, BUT DEPRECIATION, INSURANCE, AND REPAIRS ARE NOT DEDUCTIBLE.

A 7 CENTS-PER-MILE FIGURE WAS INITIALLY SET IN 1958 AND IN THE INTERVENING 24 YEARS THAT FIGURE HAS BEEN ADJUSTED UPWARDS BY 2 CENTS. THE 7 CENTS-PER-MILE DEDUCTION WAS NOT REALISTIC IN 1958, AND THE INSIGNIFICANT 2 CENT CHANGE HARDLY REFLECTS EITHER THE SUBSTANTIAL RATE OF INFLATION OR THE ASTRONOMICAL RISE IN THE PRICE OF FUEL THAT HAS OCCURRED OVER THE LAST QUARTER CENTURY.

S.473 WOULD INCREASE THE "VOLUNTEER MILEAGE DEDUCTION" TO MAKE IT COMPARABLE TO THE ALLOWABLE DEDUCTION FOR THE USE OF AN AUTOMOBILE ON GOVERNMENT BUSINESS -- A RATE THAT IS CURRENTLY 20 CENTS PER MILE.

I WANT TO MAKE IT CLEAR, MR. CHAIRMAN, THAT MY BILL WOULD NOT BY ANY MEANS ALLOW VOLUNTEERS TO DEDUCT THE FULL COSTS THAT THEY BEAR IN USING A PRIVATE AUTOMOBILE IN SOME CHARITABLE SERVICE. THE ACTUAL COST OF USING A VEHICLE, REGARDLESS OF LOCATION, IS AT LEAST, ON AVERAGE, 50% HIGHER THAN THE 20 CENT-PER-MILE FIGURE IN S.473. EVEN WITH THE PASSAGE OF THIS BILL, OUR NATION'S VOLUNTEERS WOULD BE MAKING SUBSTANTIAL FINANCIAL SACRIFICES IN THEIR SERVICE.

BUT I DO NOT MEAN TO UNDERVALUE THE IMPORTANCE OF THIS MEASURE. RECENTLY, THE MINNESOTA GOVERNOR'S COUNCIL ON AGING FOUND THAT VOLUNTEER DRIVERS IN ONE TYPICAL MINNESOTA COUNTY AVERAGE ABOUT 100 MILES PER MONTH. THAT MEANS THEY'RE SPENDING SUBSTANTIALLY MORE THAN $350 PER YEAR IN THEIR VOLUNTEER DRIVING, NOT TO MENTION THE TIME AND LABOR DONATED. CURRENTLY, THOUGH, THOSE VOLUNTEERS CAN DEDUCT LESS THAN A THIRD OF THAT AMOUNT FROM THEIR FEDERAL TAXES -- THE REST COMES DIRECTLY OUT OF THEIR OWN POCKETS!

MR. CHAIRMAN, I BELIEVE THAT WE HAVEN'T SEEN EVEN CLOSE TO THE POTENTIAL IN THIS COUNTRY FOR THE CHARITABLE GIVING OF PERSONAL SERVICES. AND WE WILL NOT SEE THAT POTENTIAL REALIZED UNTIL WE REMOVE MANY OF THE FINANCIAL DISINCENTIVES NOW FACING OUR NATION'S VOLUNTEERS. S.473 WOULD BE AN IMPORTANT STEP IN THAT DIRECTION. I WOULD NOW LIKE TO INTRODUCE THE REPRESENTATIVES OF SOME OF THESE GROUPS WHO ARE HERE THIS MORNING TO TESTIFY ON BEHALF OF S.473. HERE TODAY ARE:

MONSIGNOR LAWRENCE J. CORCORAN, EXECUTIVE DIRECTOR, NATIONAL CONFERENCE OF CATHOLIC CHARITIES, WASHINGTON, D.C.

MS. LAURA LEE M. GERAGHTY, DIRECTOR, MINNESOTA OFFICE ON VOLUNTEER SERVICES, AND PUBLIC POLICY CHAIR, ASSOCIATION FOR VOLUNTEER ADMINISTRATION, ST. PAUL, MINNESOTA

MS. PATRICIA CURRAN, MEMBER, BOARD OF DIRECTORS, ASSOCIATION OF JUNIOR LEAGUES, ON BEHALF OF ASSOCIATION OF JUNION LEAGUES, UNITED WAY, AND INDEPENDENT SECTOR, NEW YORK, NEW YORK

MRS. HAROLD L. DAVID, NATIONAL CHAIRMAN OF OFFICE OF VOLUNTEERS, AMERICAN RED CROSS, WASHINGTON, D.C.

JOSEPH MIZGERD, M.D. ON BEHALF OF THE AMERICAN LUNG ASSOCIATION, WASHINGTON, D.C.

Senator **Packwood**. Let me say a word of appreciation to all of the groups that you represent for the help that you gave us last year on the charitable contributions legislation. In the 1981 tax bill, Congress passed a provision allowing nonitemizers to deduct charitable contributions. This is phased in over several years. But at least we started. That is a battle that had to be won over the objections of the Treasury. We simply would not have made it had we not had the broad base of support from your organization and 100 others, and I am personally quite appreciative.

Monsignor Corcoran.

STATEMENT OF REV. MSGR. LAWRENCE J. CORCORAN, EXECUTIVE DIRECTOR, NATIONAL CONFERENCE OF CATHOLIC CHARITIES

Monsignor **Corcoran**. Thank you very much, Mr. Chairman. I think that I would want to reciprocate with the gratitude, speaking personally, and I am sure for the others also, for the great leadership and help that you gave on that charitable contributions bill.

Senator **Packwood**. You are very kind, but I can assure you we would not have made it without the broad-based grass roots support we had from all of you and 100 other organizations all over this country. I have never had a better collection of allies in any bill or fight that I have undertaken.

Monsignor **Corcoran**. Well, we are very pleased and also hope for a similar alliance on the subject that we address this morning.

I think my statement can be very brief. I represent the National Conference of Catholic Charities which is a broad collection of social service, neighborhood and community organization programs, just every type of service practically that you can think of across the country, and we do depend considerably upon volunteers, as do so many other organizations.

This is a particularly important time, a time of change, of great demands upon the services and the assistance that we provide. The volunteer effort in meeting these demands can be considerably increased, I think, if this particular bill is successful in wending its way through Congress. I think of the great reliance upon volunteers, and of the increased costs of fuel and oil which they have, but particularly the increased cost of operating an automobile, and I think that is most important,

I feel the need of making some reference to what was said earlier by the representative from the Treasury that the mileage allotment is based on the actual out-of-pocket costs for gas and oil. If you begin to slice that each time a person gets in his car and start figuring now, we are just going to count for this mile the gas and oil contribution and we are not going to count this other costs as a contribution it becomes very complicated. You could apply that to almost anything, including business expenses. But the cost of running that car for that particular mile is what it costs totally for an automobile, and I think it is a matter of equity to give the same kind of allotment, same kind of mileage for this kind of a contribution, and particularly if you are comparing it to a business expense.

I think that we should attach this bill to the administration's encouragement of the voluntary sector, because it is a concrete encouragement. It is not just rhetoric. It is a matter of doing it in a very substantial way. I think that is an important item.

I think the other and final point that I would make, is that this would enable people with rather modest incomes to be more inclined to volunteer, where volunteering means that they are going to have to step in their car and go someplace, and maybe frequently go someplace, which is the case so often today.

So I think that we are here substantiating the contribution that they make, that volunteers make, and I think this bill is a real concrete way to encourage them and support this particular contribution.

Thank you very much.

[The prepared statement of Msgr. Lawrence J. Corcoran follows:]

TESTIMONY
by
Rev. Msgr. Lawrence J. Corcoran
Executive Director
of the
National Conference of Catholic Charities
before the
Senate Finance Subcommittee
on
Taxation and Debt Management
April 23, 1982

Good morning, Senator Packwood and members of the Senate Finance Subcommittee on Taxation and Debt Management. I am pleased to be here this morning, as a representative of the voluntary sector, to add the National Conference of Catholic Charities' strong endorsement of S. 473, which would increase the deduction allowed for use of a personal automobile to conduct voluntary service for a charitable organization.

The National Conference of Catholic Charities is the largest non-profit social service network in the country, comprising more than 750 agencies and institutions nationwide. Catholic Charities agencies and institutions involve thousands of volunteers in their efforts to provide human services, as do our major national affiliate groups - the Society of St. Vincent DePaul, the Ladies of Charity and the Christ Child Society. Volunteers from these affiliate organizations and those involved with Catholic Charities are among millions of people who are the quintessence of good and Godly work, and who are essential to the task of meeting the emergency and ongoing needs of families, youth and the aging.

In 1974 the Annual Survey of Catholic Charities Agencies revealed that the total number of volunteers active in agencies was 56,414. Our 1980 Annual Survey showed a total of 95,089 volunteers serving actively, an increase in volunteers falling slightly short of 100 percent in six years. These figures do not take into account the many thousands of volunteers active in our affiliate national organizations - organizations which are almost entirely voluntary in nature. Our Parish Outreach Program, begun about five years ago, has deliberately sought to expand upon the concept of utilizing volunteers to perform human service functions within individual parishes and neighborhoods.

Catholic Charities agencies participate in this and other volunteer-oriented programs. For example, during its participation in an EnergyCare Project, Associated Catholic Charities, Inc. of Baltimore organized a parish-based program of low-cost home weatherization. The coordinated program - which provided home weatherization materials for 500 households, 50 low-income families in each of ten inner-city parishes - utilized staff to seek weatherization material supplies and train parishes on installation, while the parishes utilized their volunteers to register families for the program, distribute materials and assist in the installation.

In another instance of the work of Catholic Charities' volunteers, the Whitefield Emergency Energy Taskforce (WHEET), in the Diocese of Manchester, New Hampshire, provides emergency fuel assistance, wood for heating through a cooperative sharing of labor from the recipients or church volunteers, and a food pantry for food emergencies. Parish volunteers work with the volunteers from other churches to cut the wood. They also hold fundraisers to purchase logs or other fuel. Parishioners also donate one food staple per family each week at church services.

Also in the Diocese of Manchester, an experimental project utilizing volunteers was initiated to speed up access to government fuel assistance funds for the home-bound elderly. The over-burdened community action agencies, which were responsible for processing fuel assistance applications, could not respond to needs quickly enough. Through an agreement with State officials, the outreach staff and parish volunteers received training from the State-appointed agencies, then helped locate those in need of energy assistance and assisted in the application process. Mobilization of parish volunteers during the initial phase of the project resulted in the early processing of energy-assistance applications from more than 100 home-bound elderly.

And in one more of a multitude of examples of volunteer charitable work, Catholic Community Services in Washington State's Seattle/King County responded to State budget cutbacks by expanding from five parishes to 47 of 53 Catholic parishes in King County a volunteer-based chore services program. Volunteers are mobilized by a coordinator in each parish to assume a major responsibility in chore provision services for the community's elderly - heretofore provided by paid workers - such as housekeeping functions, home repair, bill-paying, meal preparation and client visitation. The initiative of Catholic Community Services in coordinating work previously funded by the State is an alternative to traditional service delivery arising out of budgetary crisis. Volunteers have worked to avert literally thousands of individual disasters which might have occurred following state termination of services to Seattle/King County's elderly chore service recipients.

Examples like these demonstrate the potential and capacity of a community to respond to its needs, and of our increasing reliance upon the charitable work performed by volunteers. But new needs replace old ones, and volunteers can only give so much time, energy and personal resources.

During these economically straining times, as energy costs take an ever-greater toll from our individual budgets, many of the people who donate themselves willingly to helping others find that they no longer have the resources to expend in such work. The efforts of volunteers involve largely that of self-giving, and this is, of course, the essence of volunterism.

Volunteers service direct needs: they give their time and skill to enrich the lives of the homebound or otherwise isolated; to organize clothing and food banks, wood and other energy supplies, programs of education and sensitivity. But volunteers do more than direct service: volunteers participate in advising and carrying out the functions of our city and state governments, and serve on the boards and determine policy of non-profit organizations. Volunteers participate in school, church and other systems which shape the vision and growth of the young and give support and counsel to the aging; and give actively to the arts, to athletics, to hospitals, to fire departments, ad infinitum.

While the overall well-being of society should rely on the active contributions of volunteers, we continue to take this contribution for granted, a contribution which, incidentally, provides some services at a lower unit of cost than would be possible with paid staff.

We cannot reward our volunteers. The rewards of voluntary service are of a personal and spiritual nature. But volunteers do have some costs which can make their service difficult in pressing economic times. A retired school teacher, for example, finds it difficult to continue delivering "Meals on Wheels" with the current mileage reimbursement so low. The contributing nature of volunteer work should not preclude us from giving a fair measure to those who, in turn, give so much. We can help by increasing the automobile travel allowance incurred in the course of performing charitable, voluntary work, as proposed in S. 473, introduced by Senator Durenberger and H.R. 767, introduced by Representative Mikulski. Inasmuch as our tax code provides heavy incentives to business we must offer a fair incentive to volunteers who, like business, greatly contribute to the economic and emotional soundness of our society. We believe that making the travel allowance more equitable will attract many more volunteers.

We know there are limits to what government can do, and these limits are being more tightly drawn. As service resources are strained, we are relying ever more heavily on volunteers to service social, community and human needs. But, as with government, there are limits to what individuals can do.

The National Conference of Catholic Charities believes that proposals such as Senator Durenberger's, which provide encouragement and incentives to volunteer work, are in keeping with our American humanitarian tradition and our Judeo-Christian ethic of neighbor helping neighbor.

I thank you for the opportunity to appear before you today.

Senator **Durenberger**. Thank you, Monsignor.

In the order—I guess we are going by the order on the witness list.

Laura Lee Geraghty will be next.

Welcome.

STATEMENT OF LAURA LEE M. GERAGHTY, DIRECTOR, MINNESOTA OFFICE ON VOLUNTEER SERVICES, AND PUBLIC POLICY CHAIR, ASSOCIATION FOR VOLUNTEER ADMINISTRATION

Ms. **Geraghty**. Thank you, Senator.

I would like to urge passage of the volunteer mileage deduction bill. I am here today representing two organizations. I am the director of the Minnesota Office on Volunteer Services and also as public policy chair for the Association for Volunteer Administration. Both of these organizations have taken strong positions in favor of increasing the Federal tax deduction for volunteer-related mileage.

The Minnesota Office on Volunteer Services provides statewide leadership and supportive services to volunteer leaders to initiate, expand, and improve the contributions of volunteers. We work with private and public sector organizations which either provide or utilize volunteer services.

The Association for Volunteer Administration is an international professional organization for those working in the field of volunteer management. Membership includes program administrators, agency executives, educators, researchers, consultants, trainers, and authors who share a common concern for the future of volunteerism.

Today, leaders at the national, State, and local level are encouraging the utilization of volunteers and the allocation of other private sector resources to fill service gaps created by Government budget cuts. This concept offers a concrete solution to meeting human and other community needs with shrinking public funds. However, in order to accomplish this we must develop public policies which encourage and enable this increased participation. This bill is one way to do so.

A Gallup survey completed in June 1981 indicates that 31 percent of Americans volunteer on a regular, active basis of 2 or more hours per week. Ten percent of the adult population averaged 7 or more volunteer hours per week.

Another recent study has valued the annual contribution of our Nation's volunteers at $64.5 billion. This is an immense contribution to our country.

However, many volunteers are feeling frustrated that their work is not recognized and supported. Many others would be willing to volunteer their services but cannot afford to do so. At a time when we are looking toward increased contributions from volunteers, we cannot afford to discourage existing volunteers or to keep others from volunteering because of the expenses incurred.

In recent years rising fuel costs have forced some volunteers to reduce or eliminate their contributions. It is becoming increasingly difficult to recruit volunteers for positions requiring substantial driving. Additionally, volunteers are often finding it difficult to afford the driving necessary to simply get to and from their volunteer assignments. Volunteers cannot serve if they cannot get there.

Aside from the very practical aspect of making volunteering more affordable, we must also consider the message that we are giving to volunteers. The maximum Federal income tax deduction which volunteers may currently claim for mileage is 9 cents per mile. In contrast, paid workers may claim 20 cents per mile for th[illegible]usiness-related automobile expenses.

This difference implies that paid work is more highly valued than unpaid work. Senate bill 473 would eliminate this disparity and provide increased recognition of the valuable contributions our volunteers make to their communities and to our country.

Several States have already responded to this need by enacting legislation which increases the State tax deduction for volunteer mileage. In Minnesota a bill was introduced this last session but did not receive hearings due to the short session. However, this bill will be reintroduced in the next legislative session and will have the support of hundreds of volunteer organizations throughout the State of Minnesota. Those same volunteer leaders are just as interested in increasing the Federal tax deduction for volunteer mileage.

This is a positive example of Federal legislation which expands options for our citizens. It does not attempt to regulate or control any aspects of our society. It is not a giveaway program. It will not reward or compensate volunteers for their services. Instead, it will enable our millions of volunteers to continue or increase their contributions, and it will enable those who cannot currently afford to volunteer to do so.

It is very appropriate that this hearing is being held during National Volunteer Week. Just as local organizations throughout the country are recognizing their volunteers in a variety of ways, we in this room are attempting to recognize the full value of volunteer contributions by equalizing the tax deduction allowed for unpaid work with that of paid work.

On behalf of the Minnesota Office on Volunteer Services and the Association for Volunteer Administration, and for the benefit of the millions of volunteers these organizations serve, I urge passage of the volunteer mileage deduction bill in the belief that it will stimulate and strengthen volunteerism in this country.

[The prepared statement of Laura Lee M. Geraghty follows:]

FORMAL TESTIMONY SUBMITTED BY LAURA LEE M. GERAGHTY

SUMMARY OUTLINE OF TESTIMONY

April 23, 1982

FROM : Laura Lee M. Geraghty
Director, Minnesota Office on Volunteer Services; and
Public Policy Chair, Association for Volunteer Administration

BEFORE : Senate Finance Sub-Committee on Taxation and Debt Management
S. 473 Volunteer Mileage Deduction Bill

I. Urging the passage of S. 473 on behalf of the Minnesota Office on Volunteer Services and the Association for Volunteer Administration

II. Increasing Need for the Legislation
  A. Leaders at the national, state and local level are encouraging increased utilization of volunteer services.

  B. As financial resources decrease the need for volunteers increases.

  C. 31% of Americans currently volunteer on a regular basis Their contribution is valued at $64.5 annually.

  D. Many volunteers feel that their work is not recognized and supported.

  E. Rising fuel costs and inflation is making it more difficult to afford to volunteer.

  F. When business-related mileage tax deductions are higher than volunteer-related, it appears that we do not value unpaid work.

III. Response to Need
  A. S. 473 eliminate an impediment to volunteering.

  B. There is broad and diverse support for this legislation from the volunteer community.

  C. Several states have responded to the need by enacting legislation to raise state tax deductions for volunteer mileage.

IV. Why Support For S. 473
  A. S. 473 is a positive example of federal legislation.

  B. It enables and encourages volunteerism, rather than creating regulation and control.

  C. S. 473 is a form of public policy recognition of the value of volunteer work and enhances the status of volunteers.

  D. This bill will stimulate and strengthen volunteerism.

TESTIMONY
APRIL 23, 1982

FROM: Laura Lee M. Geraghty
Director, Minnesota Office on Volunteer Services; and
Public Policy Chair, Association for Volunteer Administration

BEFORE: Senate Finance Sub-Committee on Taxation and Debt Management
S. 473 Volunteer Mileage Deduction Bill

I would like to urge passage of S. 473, the Volunteer Mileage Deduction Bill. I am here today representing two organizations. I am the director of the Minnesota Office on Volunteer Services, and also the public policy chair for the Association for Volunteer Administration. Both of these organizations have taken strong positions in favor of increasing the federal tax deduction for volunteer-related mileage.

The Minnesota Office on Volunteer Services (M.O.V.S.) was established to promote the effective coordination and channeling of voluntary action to improve the quality of life for Minnesota citizens. The Office provides statewide leadership and supportive services to volunteer leaders to initiate, expand, and improve the contributions of volunteers. It works with private and public sector organizations, which either provide or utilize volunteer services in such areas as human services, environmental and cultural affairs, and civic involvement.

The Association for Volunteer Administration (AVA) is an international professional organization for those working in the field of volunteer management. Membership in AVA is open to both salaried and unsalaried program administrators, agency executives, educators, researchers, consultants, trainers and authors who share a common concern for the future of volunteerism.

Today, leaders at the national, state and local level are encouraging the utilization of volunteers and the allocation of other private-sector resources to fill service gaps created by government budget cuts. This concept offers a concrete solution to meeting human and other community needs with shrinking public funds. However, in order to accomplish this, we must develop public policies which encourage and enable this increased participation. This bill is one way to do so.

Voluntary manpower is our greatest potential resource in meeting the current budget crisis. A Gallup survey, completed in June 1981, indicates that 31% of Americans volunteer on a regular, active basis of two or more hours per week. Ten percent of the adult population averaged seven or more volunteer hours a week.

Another recent study has valued the contributions of our nation's volunteers at $64.5 billion for the year ending last October. This is an immense contribution to our country.

However, many volunteers are feeling frustrated that their work is not recognized and supported. Many others would be willing to volunteer their services, but cannot afford to do so. At a time when we are looking towards increased contributions from volunteers, we cannot afford to discourage existing volunteers or to keep others from volunteering because of the expenses incurred.

In recent years rising fuel costs have forced some volunteers to reduce or eliminate their contributions. It is becoming increasingly difficult to recruit volunteers for positions requiring substantial driving (i.e. transporting seniors and handicapped to medical appointments and youth to athletic events, library homebound and meals on wheels programs). Additionally volunteers are often finding it difficult to afford the driving necessary to simply get to and from volunteer assignments, particularly in rural areas. Volunteers cannot serve, if they cannot get there.

Aside from the very practical aspect of making volunteering affordable to all who wish to participate, we must also consider the message that we are sending to volunteers. The maximum federal income tax deduction which volunteers may currently claim, for mileage and other automobile-related expenses, is 9 cents per mile. In contrast, paid workers may claim 20 cents per mile for their business-related automobile expenses.

This difference implies that paid work is more highly valued than unpaid work. Senate file 473 would eliminate this disparity and provide increased recognition of the valuable contributions our volunteers make to their communities and to our country.

Several states have already responded to this need by enacting legislation which increases the state tax deduction for volunteer mileage. In Minnesota a bill was introduced in the last legislative session to increase the state tax deduction for volunteer mileage. But because of a short session, it did not receive a hearing this year. However, the bill will be reintroduced next year and it will have the support of hundreds of volunteer organizations throughout the state - from Girl Scout councils, hospitals, neighborhood centers, court services, Voluntary Action Centers, headstart programs, Red Cross, parent/teacher associations and a myriad of others representing local and state-level programs. Those same volunteer leaders are just as interested in increasing the federal tax deduction for volunteer mileage. In fact, a number have asked me to bring letters from their organizations supporting this legislation. Other Minnesota organizations have also indicated that they will be mailing letters of support.

In Minnesota we have embarked upon a new project called "Volunteer For Minnesota." The purpose of this project is to design and implement an innovative plan for communities to use in order to increase and enhance citizen involvement, by building community coalitions to assess needs and resources and to determine where volunteers can most appropriately be utilized. During the eighteen month term of this project, at least fifty Minnesota communities will begin or increase the involvement of volunteers in the delivery of services. The project will result in several models that can be used by other states to increase volunteer involvement.

Leaders from state and local government, business, labor, academic and volunteer communities are involved in the planning of this project. All are very enthusiastic, but recognize that we cannot achieve our goal without a substantial increase in volunteer contributions. Senate file 473 would provide an incentive to encourage more volunteering.

This is a positive example of federal legislation, which expands options for our citizens. It does not attempt to regulate or control any aspect of our society. It is not a giveaway program. It will not reward or compensate volunteers for their service. Instead, it will enable our millions of volunteers to continue or increase their contributions and it will enable those who cannot currently afford to volunteer to do so.

It is very appropriate that this hearing is being held during National Volunteer Week. Just as local organizations around the country are recognizing their volunteers in a variety of ways, we in this room are attempting to recognize the full value of volunteer contributions by equalizing the tax deduction allowed for unpaid work with that of paid work.

On behalf of the Minnesota Office on Volunteer Services and the Association for Volunteer Administration, and for the benefit of the millions of volunteers these organizations serve, I urge passage of the Volunteer Mileage Deduction Bill in the belief that it will stimulate and strengthen volunteerism in this country.

Senator **DURENBERGER**. Thank you very much.

Ms. Curran on behalf of not only the Association of Junior Leagues, but also the Independent Sector. Welcome.

STATEMENT OF PATRICIA CURRAN, MEMBER, BOARD OF DIRECTORS, ASSOCIATION OF JUNIOR LEAGUES, ON BEHALF OF ASSOCIATION OF JUNIOR LEAGUES, UNITED WAY, AND INDEPENDENT SECTOR, NEW YORK

Ms. **CURRAN**. Thank you.

I am Patricia Curran of Marcellus, N.Y., a member of the Association of Junior League's Public Policy Committee and a past president of the Junior League of Syracuse, N.Y. I appreciate this opportunity to appear before you today to express the association's strong support for S. 473, legislation which would set the mileage deduction for volunteers at the rate allowed Government employees as reimbursement when they use their vehicles for Government business. I also am submitting for the record letters from two other major voluntary organizations, Independent Sector and the United Way of America, in support of the association's statement.

The Association of Junior Leagues is an international voluntary organization with 241 member leagues in the United States representing approximately 142,000 individual members. Junior Leagues promote the solution of community problems through voluntary citizen involvement and train their members to be effective voluntary participants in their communities. Every active Junior League member must make a commitment to a volunteer position.

In our larger metropolitan areas it is not uncommon for a Junior League member to make a 50-mile round trip to her volunteer assignment. However, Junior Leagues, like many other volunteer organizations, are finding that their members are increasingly reluctant to make firm commitments to regular volunteer placements that are many miles from their homes. High gasoline costs and the refusal of the Internal Revenue Service to allow volunteers an adequate deduction for mileage costs in computing their Federal income taxes jeopardize the quality and, in some cases, the very existence of many vital volunteer programs.

Faced by high mileage costs, a volunteer may cut her involvement with a program from once or twice a week to once every 2 weeks or even once a month. This could harm programs such as Meals on Wheels or tutoring programs which require brief but frequent time commitments.

For instance, a project sponsored by the Junior League of Syracuse is facing difficulty recruiting volunteers to serve as leaders for youth communications workshops sponsored throughout Onondaga County by Contact, a local hotline. The director of Contact reports increasing resistance from volunteers to requests for participation in workshops that are located in schools at considerable distance from volunteers' homes. She further reports that the volunteers find the costs of driving across the county, a 65-mile round trip, prohibitive. In her view, legislation such as S. 473 would provide a much needed incentive to permit volunteers more freedom to perform services at a greater distance from their home.

Junior League members in other parts of the country are reporting similar difficulties. These are included in the full report which I would like to submit to you for the record.

We believe that the volunteer mileage deduction should be computed on the same basis that is used for computing the deduction allowed businessmen and the reimbursement rate allowed Government employees in receiving compensation for their mileage expenses. To deny volunteers the same deduction as that granted Government officials or businessmen indicates that the Government does not consider the services of the volunteers to be of equal value to society as those provided by paid employees. Some justify this IRS ruling by pointing out that Government employees and businessmen pay taxes on the salaries they earn while using their cars. It is important to note that volunteers provide their time without pay to those persons and institutions most in need. Discouraging volunteer work with such policies as refusing to increase the volunteer mileage deduction can only lead to increased costs for the public sector if it is forced to assume services now provided by unpaid volunteers.

Moreover, it is especially critical at this time of massive cutbacks in Federal funding for social services, the arts, and education that volunteers be encouraged, not discouraged.

Many volunteers are beginning to ask the questions posed by the Junior League of Eugene, Oreg., at a meeting of the Junior Leagues in the Northwest last fall. Will this, too, be the year when voluntarism becomes a luxury that many of our members can no longer afford? Even as we sit here today, we are confronted with the fact that our hours of labor donated to our communities are not evaluated on the same plane as the hours of labor put in by the businessman or the businesswoman. While we altruistically give up our time, the businessperson's time yields monetary gains. Mileage incurred on our job may be deducted at 9 cents per mile while the businessperson deducts 20 cents per mile. Child care comes straight from the pocket of the volunteer with young children while the businesswoman takes a tax credit for her child care expenses incurred during her workday.

With this absence of monetary support, voluntarism can only be an activity of the upper economic strata. Have you ever considered how many of us might need to shorten our league career due to the hidden expenses of voluntarism?

In conclusion, to cut costs, many volunteers may be forced to withdraw their services. This would be a great loss to many of our country's neediest citizens, especially at a time when Government funding is being withdrawn from many services. We strongly believe that society cannot continue to place increasing demands on volunteers to provide services to the community unless it is ready to recognize the worth of the volunteers. An adjustment is long overdue. We urge you to consider S. 473 favorably.

[The prepared statement of Patricia Curran follows:]

PREPARED STATEMENT OF PATRICIA CURRAN, MEMBER, PUBLIC POLICY COMMITTEE, THE ASSOCIATION OF JUNIOR LEAGUES, INC., WITH ATTACHED LETTERS OF SUPPORT FROM INDEPENDENT SECTOR AND UNITED WAY OF AMERICA

SUMMARY

The Association of Junior Leagues urges the Subcommittee on Taxation and Debt Management of the Senate Committee on Finance to support S. 4[illegible], legislation which would set the mileage deduction for volunteers at the rate allowed government employees as reimbursement when they use their vehicles for government business.

The Association's testimony is supported by the INDEPENDENT SECTOR and the United Way of America.

I. The Association

A. International women's voluntary organization

B. 241 Junior Leagues; 142,000 individual members in the United States

C. Promotes the solution of community problems through voluntary citizen involvement, and trains Junior League members to be effective voluntary participants in their communities

II. Volunteer Mileage Deduction Should Be Computed on the Same Basis as Reimbursement Granted Government Employees

A. Volunteers such as Junior League members contribute many hours to a wide range of valuable community projects, often traveling long distances to their volunteer assignments.

B. The high costs of operating a car and the Internal Revenue Services' refusal to allow volunteers an adequate deduction for mileage costs have forced many volunteers to reduce their volunteer commitment, thus jeopardizing the existence of vital community projects.

C. Denying volunteers the same deduction as that granted government workers and businessmen indicates that government does not consider volunteers' services to be of equal value as though provided by paid employees.

D. It is especially important at this time of federal funding cutbacks that government policies encourage, not discourage volunteer work.

I am Patricia Curran, of Marcellus, New York, a member of the Association of Junior League's Public Policy Committee and a past president of the Junior League of Syracuse, New York. I appreciate this opportunity to appear before you today to express the Association's strong support for S. 473, legislation which would set the mileage deduction for volunteers at the rate allowed government employees as reimbursement when they use their vehicles for government business. We support S. 473 and supported its predecessor, S. 1867, in the last session of Congress because the proposed legislation reflects the Association's belief in the importance of volunteer work and acknowledges the rising costs incurred by volunteers in providing their services. I also am submitting for the record letters from two other major voluntary organizations, INDEPENDENT SECTOR and the United Way of America, in support of the Association's statement.

Junior League Volunteers

The Association of Junior Leagues is an international voluntary organization with 241 member Leagues in the United States, representing approximately 142,000 individual members. Junior Leagues promote the solution of community problems through voluntary citizen involvement and train their members to be effective voluntary participants in their communities. Every active Junior League member must make a commitment to a volunteer position. In addition, Junior Leagues develop projects and raise funds for community programs. During 1980-81, Junior Leagues sponsored almost 1400 projects in their communities and netted almost $12 million from various benefits and ongoing money raisers such as thrift shops, cookbooks, auctions and sponsorship of cultural and sporting events.

The money raised by these League fundraisers is used to support projects in the community such as services to children and their families, adolescents, the aged and populations experiencing special problems such as drug abusers, alcoholics and battered women, as well as programs concerned with the arts, urban conservation and the protection of the environment. These programs are made possible by League volunteers who often drive long distances to their volunteer jobs.

In our larger metropolitan areas, it is not uncommon for a Junior League member to make a 50-mile round trip to her volunteer assignment. However, Junior Leagues, like many other volunteer organizations, are finding that their members are increasingly reluctant to make firm commitments to regular volunteer placements that are many miles from their homes. High gasoline costs and the refusal of the Internal Revenue Service to allow a volunteer an adequate deduction for mileage costs in computing their federal income taxes jeopardize the quality and, in some cases, the very existence of many vital programs. Faced by high mileage costs, a volunteer may cut her involvement with a program from once or twice a week to once every two weeks or even once a month. This could harm programs such as Meals on Wheels or tutoring programs which require brief, but frequent, time commitments.

For instance, a project sponsored by the Junior League of Syracuse, is facing increasing difficulty recruiting volunteers to serve as leaders for youth communications workshops sponsored throughout Onondaga County by Contact, a local hotline. Since the workshops began in September 1981, Junior Leagues participating in the workshop have traveled almost 2,000 miles to conduct 38 workshops. However, the director of Contact reports increasing resistance from volunteers to requests for participation in workshops that are located in schools at considerable distance from the volunteers' homes. The director of Contact reports that the volunteers find the costs of driving across the county--a 65 mile roundtrip--"prohibitive." In her view, legislation such as S. 473 would provide a much-needed incentive to "permit volunteers more freedom to perform services at greater distances from their homes." Contact cannot continue the workshops without volunteer assistance.

Junior League members in other parts of the country report similar difficulties. For example, the Junior League of Eugene, Oregon also reports that the high costs involved with volunteering have made it very difficult for the League to recruit community volunteers for a parent aide program it established at the request of the Children's Services Division of Lane County. One parent aide reported that she had driven 547 miles in one year and contributed more than 250 hours of her time to fulfill her volunteer commitment as a parent aide. Certainly giving recognition to such activity by allowing a higher mileage deduction would provide an incentive to the continuation of such a valuable service.

Twenty-seven participants at the recent Presidents-Elect Training Seminar of the Association's Area IV, which covers the midwestern states, including Minnesota, signed a petition stating that "raising the volunteer deduction for mileage from nine cents to 20 cents a mile would make a difference to me in my volunteer activities."

Volunteers Should Receive Equal Consideration

The mileage deduction allowed volunteers is based on what the Internal Revenue Service considers out-of-pocket expenses, e.g., gasoline. The deductions allowed businessmen and the reimbursement rate granted government employees, however, are based on the computation of the average costs of depreciation, maintenance, repairs, tires, gasoline and its related taxes, motor oil, insurance and registration fees. Currently, businessmen are allowed a deduction of 20 cents per mile, the same amount allowed government employees as reimbursement. Volunteers, however, are only allowed to deduct nine cents per mile.

We believe that the volunteer mileage deduction should be computed on the same basis as that used for computing the deduction allowed businessmen and the reimbursement rate for government employees in receiving compensation for their mileage expenses. However, the Department of the Treasury refuses to do this because it considers volunteers' automobiles primarily personal vehicles and refuses to allow consideration of a proportionate share of general maintenance, general repairs, depreciation or fixed costs, such as insurance or registration fees, in computing the volunteer mileage deduction.

To deny volunteers the same deduction as that granted government officials or businessmen indicates that the government does not consider the services of volunteers to be of equal value to society as those provided by paid employees. Some justify this IRS ruling by pointing out that government officials and businessmen pay taxes on the salaries they earn while using their cars.

It is important to note that volunteers provide their time without pay to those persons and institutions most in need. Discouraging volunteer work with such policies as refusing to increase the volunteer mileage deduction can only lead to increased costs for the public sector if it is forced to assume services now provided by unpaid volunteers. Moreover, it is especially critical at this time of massive cutbacks in federal funding for social services, the arts and education that volunteers be encouraged, not discouraged. While it is true that increasing the volunteer mileage deduction would take away some revenue from the federal budget, it is important to recognize that increasing the deduction will help protect the continuation of valuable services delivered by millions of volunteers who have the ability to donate their labor as long as that is the only major expense they will incur. The small amount of money involved in granting the mileage deduction is multiplied many times by the volunteer services given to the community.

High Costs of Operating a Car

Until the last quarter of 1981, government employees were allowed reimbursement at a rate of 22.5 cents per mile. However, this rate was lowered by the General Services Administration after an outside consultant for the Internal Revenue Service recalculated the cost of operating a car. The rates set by the IRS are considerably lower than the estimates of operating costs provided by the American Automobile Association (AAA). The AAA estimates the operating costs to be 30.9 cents per mile for large cars and 28.5 cents per mile for an intermediate car operated in high-cost areas. The figures are slightly lower for cars operated in low-cost areas. The estimates developed by the AAA are based on the assumption that the car owner would use the car to drive 15,000 or more miles per year. The cost per mile, of course, would be higher if the car were driven less. According to the AAA, the cost of operating a six-cylinder compact car is 32.4 cents a mile if the car is operated 10,000 miles a year and 24.4 cents a mile if the car is operated 15,000 or more miles. (The AAA has not developed mileage costs based on the 10,000 mileage distance for the larger cars.) These high operating costs dramatize the need for a reassessment of the volunteer mileage deduction.

Use of Automobile

We also question the government assumption that all cars used for business or government purposes are solely business vehicles. Persons with part-time jobs may have purchased their cars well before becoming employed, yet all their business driving is calculated at the higher deduction rate allowed for business or government employees.

In addition, the Internal Revenue Service's policy regarding volunteer mileage deduction discriminates against the volunteer who is not employed outside the home--housewives or retired persons of both sexes. With gas costing approximately $1.25 cents a gallon, many volunteers are beginning to ask the questions posed by the Junior League of Eugene, Oregon at a meeting of Junior Leagues in the Northwest last fall. The questions raised pertain to the business deduction, but they could apply equally to the gap between the reimbursement rate allowed government employees and the deduction granted to volunteers.

> Will this too be the year when voluntarism becomes a luxury that many of our members can no longer afford? Even as we sit here today we are confronted with the fact that our hours of labor donated to our communities are not evaluated on the same plane as the hours of labor put in by the businessman or businesswoman. While we altruistically give of our time the businessperson's time yields monetary gains. Mileage incurred on our "job" may be deducted at 9 cents per mile while the businessperson deducts 20 cents per mile. Child care comes straight from the pocket of the volunteer with young children while the businesswoman takes a tax credit for child care expenses incurred during her work day...

> With this absence of monetary support, voluntarism can only be an activity of the upper economic strata. Have you ever considered how many of us might need to shorten our League career due to the hidden expenses of voluntarism?

Quite typical of the dilemma faced by many retired persons on limited fixed incomes is the story of a retired couple with a car, but limited income, reported by the Junior League of Detroit. The wife wanted to volunteer for a local hotline that provided daily reassurance to shut-ins. However, after a careful assessment of their budget, the couple decided that they could not afford the costs of the 12-mile daily trip to the offices of the agency that operated the hotline. Nor could the agency provide reimbursement. The agency, as many other community agencies, relies on volunteers' efforts to run the hotline.

The higher mileage deduction would have provided the necessary incentive for the woman to volunteer on a regular basis for a much-needed service. In addition, the volunteer service would have helped the woman gain a sense of accomplishment and a way of using her empty hours. We know, from the Association's experience with Volunteers Intervening for Equity (VIE), a national project that organizes and trains older volunteers for community service, that retired persons make effective, caring volunteers. In turn, volunteering gives them a sense of accomplishment and being needed by their communities.

In conclusion, to cut costs, many volunteers may be forced to withdraw their services. This would be a great loss to many of our country's neediest citizens, especially at a time when government funding is being withdrawn for many services. We strongly believe that society cannot continue to place increasing demands on volunteers to provide services to the community unless it is ready to recognize the worth of volunteer work. An adjustment in the volunteer mileage deduction is long overdue. We urge you to consider S. 473 favorably.

Thank you for this opportunity to appear before you today.

Patricia Curran
Member, Public Policy Committee
The Association of Junior Leagues, Inc.

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April 19, 1982

Ms. Deborah Seidel
Executive Director
Association of Junior Leagues,
Inc.
825 Third Avenue
New York, NY 10022

Dear Deborah:

INDEPENDENT SECTOR strongly endorses the testimony of the Association of Junior Leagues, Inc. on S473 which would provide that the amount of the charitable deduction allowable for expenses incurred in the operation of a motor vehicle will be determined in the same manner Federal Government employees determine reimbursement for use of their vehicles on government business.

The need for this legislation is clear. Recent cuts in federal funding make it critically important that Americans be encouraged to volunteer their services. However, voluntary organizations are facing serious problems in recruiting volunteers to perform services which require those volunteers to use their private automobiles. The problem cited, is the cost to volunteers of using their automobiles. A Montgomery County, Maryland report, December 1979, gives specifics on this problem. It documents reduced volunteer involvement in services such as daycare centers, boys' homes, nursing homes, handicap facilities and similar organizations. The same report cites a University of Maryland agency as follows: "We have noticed a dramatic decrease in willingness of volunteers to make trips to provide services." I am attaching a copy of the Montgomery County report.

Another organization, VOLUNTEER: The National Center for Citizen Involvement, which has the pulse of the status of volunteering throughout America, states the following: "...Gasoline prices have already caused a cutback in many volunteer programs which require the use of a car. If this legislation is not passed, future increases in fuel cost will force even more volunteers to give up their work."

The nine cents per mile tax deduction permitted by current law to taxpayers who use their cars for volunteer work is wholly inadequate. The American Automobile Association estimates per mile driving costs to be 32¢ for those who drive under 10,000 miles per year and 24¢ for motorists driving 15,000 miles per year.

Volunteers contribute time which is valued at $64.5 billion each year. More than 84 million Americans volunteer each year in this nation. In view of the recent cuts in federal funding of human service programs, it is exceedingly important that everything possible be done to continue to encourage people to volunteer their services. We strongly urge that volunteers be permitted the same deduction (currently $.20 a mile) for the use of their private automobiles in carrying out volunteer activities, as Government employees are permitted in using their vehicles on government business.

Sincerely,

Brian O'Connell

Brian O'Connell
President

BO'C/lso

Attachment

VOLUNTEER TRANSPORTATION
IN MONTGOMERY COUNTY, MARYLAND

A REPORT

Marit Thorson
Coordinator
Volunteer Services
Office of Family Resources
301 E. Jefferson St.
Rockville, Maryland 20850

December, 1979

ACKNOWLEDGEMENTS

This report would not have been completed without the help of two research and legislative volunteer aides, Virginia Heffernan and Gail Ewing, who completed the tabulations, set up the charts and contributed ideas for the narrative. I am grateful to them for their assistance and to Barbara Gross, Administrative Aide, for typing the report many times over.

VOLUNTEER TRANSPORTATION SURVEY REPORT

Montgomery County Executive Charles W. Gilchrist late last spring became concerned about the availability of gasoline for volunteers in various County departments who provide emergency or essential service to citizens of the County. These included the Fire and Rescue Department; Civil Defense and Emergency Planning, Health and Social Services and the Office of Family Resources, Volunteer Services. The Executive also reviewed such essential services provided by Meals on Wheels, HELP and FISH groups and others in the private sector that could be adversely affected by gasoline shortages.

Therefore, the Executive asked Volunteer Services to determine what impact the then current crisis and foreseeable future ones would have on volunteer recruitment efforts of voluntary agencies and religious groups as well as of government departments. Montgomery County Public Schools were included in the survey as part of County Government. Volunteer Services was also interested in the scope of volunteer involvement in the County. Hence the first part of the survey questionnaire addressed itself to the number of volunteers and the average number of hours contributed monthly in all three groups.

A survey questionnaire was sent to 382 groups in the three areas known to Volunteer Services as having volunteer programs. Attachments I and Ia are copies of the cover letter and the questionnaire. Ninety-four surveys were returned, representing 25% of the total surveys sent. Nine religious groups reported, a 5% return; 51 private groups responded, a 32% return; and 34 government groups responded for an 85% return.

The two charts following show summaries of the findings from the reported data.

Chart I

MONTGOMERY COUNTY, MARYLAND
VOLUNTEER TRANSPORTATION SURVEY REPORT

SCOPE OF VOLUNTEER EFFORT

TOTAL NUMBER OF GROUPS SURVEYED - 382		TOTAL NUMBER REPORTING - 94	PERCENTAGE OF TOTAL - 25%
Religious	182	9	5%
Private Sector	160	51	32%
Government	40	34	85%

	RELIGIOUS	PRIVATE	GOVERNMENT	TOTAL
Total Volunteers Reported	751	5,938	10,757	17,446
Total Vol. Hours/Mo. Reported	6,336	67,459	181,126	254,921
Total Value of Volunteer Work Per Month for All Three Groups (based on average $4.76 per hour established in 1976 by Wolozin study at State University of Pennsylvania)				$1,213,424
Total Value Per Year				$14,561,088

Estimated Total Volunteer Population (Reporting and Non-Reporting Groups)*

Religious	Private	Government	
18,000	18,556	12,600	49,156

Estimated Total Volunteer Hours/Per Month (Reporting and Non-Reporting) 688,184

Estimated Total Value of Volunteer Work Per Month (Reporting and Non-Reporting) $3,275,756
(Based on 14 hours per volunteer per month average)

Per Year $39,309,072

*The number of volunteers was projected to estimate the 100% of the volunteer population in each category.

Chart II

MONTGOMERY COUNTY, MARYLAND
VOLUNTEER TRANSPORTATION SURVEY REPORT
PERSONAL VEHICLE MILEAGE USAGE

TOTAL NUMBER OF GROUPS SURVEYED - 382		TOTAL NUMBER REPORTING - 94	PERCENTAGE OF TOTAL - 25%
Religious	182	9	5%
Private Sector	160	51	32%
Government	40	34	85%

	RELIGIOUS	PRIVATE	GOVERNMENT	TOTAL
Total Vol. Mileage/Mo. Reported*	41,340	153,408	299,882	494,630 miles
Total, Vol. Mileage/Mo. Reported for Direct Service**	31,060	127,294	172,534	330,888 miles
Total Value of Mileage/Mo. Reported (based on government allocation of 18.5¢ per mile)	$ 7,647.90	$28,380.48	$55,478.17	$91,506.55
Total Value of Mileage/Mo. for Direct Service (based on 18.5¢ per mile)	$ 5,746.10	$23,549.39	$31,918.79	$61,214.28

* These figures represent mileage to and from the work place, as well as administrative mileage for board/commission meetings.

** These figures represent mileage in transporting others as part of the volunteer's job.

The first chart breaks down the reported totals and average monthly hours for each volunteer in the three groups. There is also an estimated dollar value for volunteer work for all reported volunteers, per month and per year.

In addition, the chart shows the estimated total of reported and not reported volunteers, their monthly hours and estimated dollar value in contributed work.

The second chart is a report on volunteer driving. It is broken down into two parts. One shows the reported total mileage of all volunteers, including their driving to and from the work place. The second part reports the amount of miles driven in direct service of transporting clients.

Supplemental breakdowns of these two sections for religious groups, private agencies and government departments are shown in Attachments I, III, and IV.

Parenthetically, the greatest number of government volunteers are found in the Department of Recreation with 1,868 reported volunteers in their programs division. The Community Action Agency in the Office of Family Resources records one volunteer averaging 1,051 miles per month. The Department of Social Services reports an average of 510 miles per month for thirty-one volunteers each. Direct services driving ranges from 20 miles per month to 1,051 with the majority cluster in the 65 - 95 miles range.

The survey also asked each agency for information on purposes of the direct service personal vehicle use. Services essential to the well-being of citizens ranked highest. Social Services, hospitals, clinics, food and meals for the elderly and friendly visiting ranked high in all sectors. Many government agencies like the Department of Corrections and the Department of Recreation perform different types of service which are reflected in a high percentage of meetings, training, recreation and court visits for their volunteer driving purposes. The total response is shown in the next chart.

TRANSPORTATION SURVEY

TYPES OF DIRECT SERVICES PROVIDED USING OWN VEHICLES

Government: 34 Reporting

Meetings	12	35%	Courts	4	12%
Recreation	6	18%	Social Service	3	9%
Training	6	18%	Hospitals	2	6%
Clinics/MDs	6	18%	Friendly Visiting	2	6%
			Shopping	2	6%

Miscellaneous: Library; Tutoring; Police; Public Speaking; PR; Sr. Citizens Luncheons

Private Sector: 51 Reporting

Social Service	18	35%	Shopping	13	25%
Friendly Visiting	17	33%	Recreation	13	25%
Hospital	14	27%	Rehabilitation	11	22%
Clinics/MDs	13	25%	Training	6	12%
			Meals on Wheels	6	12%

Miscellaneous: Moving; Furniture; Employment; Housing; Mental Health; Voters Registration; Tutoring; Police

Religious: 9 Reporting

Friendly Visiting	6	67%	Shopping	4	44%
Training (Rel. Ed.)	5	56%	Social Service	4	44%
Hospitals	4	44%	Clinics	3	33%
			Recreation	3	33%

Miscellaneous: Transportation to church; Administrative Meetings; Tutoring

Another question referred to reimbursement policies. Few agencies or government departments have budgeted funds for this type of volunteer benefit. Some government departments, however, reimburse direct service drivers on request, and some County boards and commissions have money allocated for meeting purposes. These reimbursements are not reflected in the reported figures.

In order to develop data concerning current income tax mileage deduction practices, the survey provided an optional question. Response was scanty. From the reported evidence, few persons take a mileage deduction at the present rate of seven cents a mile.

Finally, the survey asked for an expression relating to an increase of the present IRS deduction allowance of seven cents a mile for volunteer driving to 17 cents a mile (now increased to 18.5¢ a mile) which is the allowed business deduction. Answers to this question are of importance to legislators at the federal and state levels. There are currently bills in the U.S. House and Senate which would increase the volunteer deduction rate to that of the business deduction rate. A large majority favored such an increase. The next chart gives a breakdown of responses for reimbursement policies, deduction practices and tax policy.

Chart III

MONTGOMERY COUNTY, MARYLAND
VOLUNTEER TRANSPORTATION SURVEY

REIMBURSEMENT POLICY

RELIGIOUS:	No reimbursement for volunteer drivers
PRIVATE SECTOR:	9 agencies, or 18%, reimburse on request or as a policy for all volunteer drivers Range: 10¢ to 25¢/mile. Average: 17¢/mile
GOVERNMENT:	6, or 15%, reimburse on request, County rate: 18.5¢/mile

MILEAGE DEDUCTION PRACTICES

	Agencies Reporting	Total Individuals Deducting
RELIGIOUS	4	117
PRIVATE SECTOR	13	581
GOVERNMENT	5	36

TAX POLICY

Favor 17¢/mile tax deduction		Favor less than 17¢/more than 7¢	
Religious	5	Religious	1
Private Sector	50	Private Sector	7
Government	21	Government	3

Comments on the impact of the gasoline crunch on human services and legislative action desired follow.

TYPE OF AGENCY	COMMENTS
Rehabilitation Service for Handicapped	"Encourage (legislative) representatives to vote for increase to 17¢. Volunteers are careful about driving."
A Boys Home	"Retention of volunteers would be easier if reimbursement were available or a larger deduction were allowed."
A Girls Home	"In favor of any legislation to enable volunteers to defray driving expenses."
Day Care Center	"Hard to get volunteers to drive. (Cars) needed for job and family necessities."
Service to Handicapped	"...most of...volunteer drivers have requested reassignment to other services closer to home." "...driver/escorts are now available only for real emergencies."
Private Health Agency	"Almost impossible to recruit new drivers at this time of shortage."
HELP Group	"We have lost 6 drivers recently, 3 also due to rising gasoline prices."
Nursing Home	"Have had to cancel programs because of shortage of supply and/or cost.
Private Literacy Program	"Volunteers used to pick up clients to take them to class. We have had to drop this service."

TYPE OF AGENCY	COMMENTS
Government Office	"We have lost 3 volunteers and 5 potential interns because of gas shortage."
County Department	"Energy crisis has been detrimental in recruitment." "High cost of gas definitely detrimental to volunteer retention."
U. Of Maryland Agency	"Have noticed a dramatic decrease in willingness of volunteers to make trips to provide services."

CONCLUSIONS:

Volunteer driver recruitment and retention is increasingly difficult. Cited reasons are increasing costs and the availability of fuel. The latter appears to be more pressing than the former.

The County agency volunteers may have to rely on use of County cars to carry out their assignments. Some agencies such as the Community Crisis Center and the Detention Center now use County cars almost exclusively. Increased usage by volunteers will have an impact on availability of County cars for all who need them. No study of the use of County cars by volunteers has been made.

A large majority of agencies in the public and private sectors favor increasing volunteer mileage deductions from the current rate to the same deduction that is allowed for business. Several indicated support for such legislation.

United Way
of America

801 North Fairfax Street
Alexandria, Virginia 22314
Phone 703 - 836-7100

April 23, 1982

Senator Bob Packwood
Chairman
Subcommittee on Taxation and
Debt Management
Committee on Finance
United States Senate
2227 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

The United Way of America strongly supports the position of the Association of Junior Leagues regarding S. 473. It is our belief that the factors included in the mileage reimbursement allowed for government employees should be extended to volunteers. Currently, volunteers are only permitted a 9¢ per mile deduction based on gas and oil costs, while government employees are reimbursed 20¢ per mile to reflect general upkeep costs. Business employees are also permitted to deduct 20¢ per mile for general upkeep.

We believe the Department of Treasury is wrong to exclude proportionate shares of general upkeep from the charitable mileage allowance. The Department of Transportation, in "Costs of Owning and Operating an Automobile, 1976," defines variable or operating costs as those directly related to the amount of travel so that "the more a car is used the higher these costs become." Maintenance and repairs, gasoline, oil and tires are included. Wear and tear on tires, engines and exhaust systems are costs directly related to the miles traveled in the course of providing voluntary services and, therefore, should be included in the mileage allowance.

We believe this legislation is especially significant today in light of the public focus on America's volunteer spirit. It seems only appropriate to pass this legislation thereby removing a disincentive to volunteering and making a public statement that volunteers are at least equal to paid employees.

Sincerely,

Jack Moskowitz
Senior Vice President
Federal Government Relations

cc: Senator David Durenberger

Senator **Durenberger**. Great timing. Thank you very much. Mrs. David on behalf of the Red Cross.

Welcome.

STATEMENT OF JACKIE DAVID, NATIONAL CHAIRMAN, OFFICE OF VOLUNTEER PERSONNEL, AMERICAN RED CROSS

Ms. **David**. Thank you, Senator. My name is Jackie David. I am the national chairman of the Office of Volunteer Personnel at the National Headquarters of the American Red Cross. I am myself a volunteer and I represent and speak for more than 1¼ million Red Cross volunteers who serve their fellow Americans in 3,053 Red Cross chapters all across the Nation; 1,723 of those chapters are staffed entirely by volunteers. On their behalf, I urge prompt enactment of S. 473 which would correct a gross inequity by permitting volunteers who use their personal automobiles in their charitable work to deduct from their Federal income taxes the same amount which Government employes are reimbursed for the use of their automobiles on Government business.

As you know, the present mileage allowance for the charitable use of a personal motor vehicle is 9 cents per mile, while the use of a personal vehicle for Government or business purpose is currently 20 cents per mile.

Thus, a Red Cross volunteer who works in a hospital comforting and aiding the sick is allowed to deduct only 9 cents per mile for driving there while a salesperson calling on that same hospital to make a sale of drugs or medical supplies or equipment is allowed to deduct or is reimbursed 20 cents per mile. The salesperson has the satisfaction not only of making a profit from the sale, but he also has the benefit of receiving more than twice the mileage allowance granted to the volunteer.

Likewise, a Red Cross volunteer reporting to a Red Cross disaster shelter is allowed to deduct only 9 cents per mile to drive there to assist the victims of the disaster while a paid employee of the Federal Emergency Management Agency is reimbursed at the rate of 20 cents per mile to drive to the same shelter.

There is simply no rational argument to support this unfair differential. The same costs of operating a motor vehicle apply whether the owner is a Government employee, a business person, or a Red Cross volunteer. Regardless of ownership, automobiles still burn gasoline, still must be covered by insurance. They depreciate. They still must be maintained and repaired.

Let me give you some examples of the number of miles which some Red Cross volunteers in your own States drive to perform their volunteer duties. You can easily infer from these figures the degree of financial sacrifice these people are called upon to make every time they use their personal automobiles.

In my own home chapter of Dallas, our chairman of volunteer drivers drove a round trip of 140 miles from his home to the chapter house for 90 days in 1980 to 1981, for a total of 12,600 miles. Another Dallas volunteer drove a 25-mile round trip 166 times for a total of 4,150 miles in this same year.

In order to come to Washington to perform my duties as national chairman of the Office of Volunteer Personnel, I drive a round trip of 60 miles to and from my home to the Dallas airport. Under the present allowance I am permitted to deduct only $5.40 whereas the cab fare for this trip is about $50. I could take a cab and be reimbursed by the Red Cross. However, since there are so many demands upon the organization's financial resources, I prefer to drive my own car, even at some financial sacrifice to myself.

Senator Danforth would be interested in knowing that the chairman of volunteers at the Red Cross Bi-State Chapter in St. Louis drives a round trip of 34 miles, 5 days a week, for an annual total of 6,000 miles. Another volunteer in St. Louis drives a round trip of 38 miles, 1 day a week, for a yearly total of nearly 2,000 miles.

And in the Red Cross Rocky Mountain Division, which includes all of Colorado and the southeastern third of Wyoming, there are presently more than 13,000 volunteers, many of whom drive substantial distances to fulfill their volunteer responsibilities. The chapter chairman in Denver drives 2,300 miles a year on Red Cross business, the vice chairman drives 3,800 miles annually. And these two live in the city of Denver. Those who live out of the city drive many more miles.

In Richmond, Va., one volunteer drives 10,000 miles a year in service to the Red Cross, another 2,200 to her work at the Veterans' Administration Hospital.

And it goes on, State after State.

By way of illustrating the unrealistic present mileage allowance, I would like to quote from a study by the Hertz Corp.:

> Average costs to own and run a typical compact-size car in 20 key U.S. cities soared 51 percent in the past two years to reach 47.3 cents per mile in 1981.

Of the 10 cities in the United States in which the Hertz study shows that operating costs are the highest, three are located in States represented by members of this subcommittee: Denver is the seventh highest in the Nation at 46.6 cents per mile; Houston is eighth at 46.53 cents; and St. Louis is ninth at 46.49 cents.

Given these figures from Hertz, I am certain you will agree that to grant volunteers an allowance of 20 cents per mile—or less than half the real cost of operating a small compact-size car—is a step which must be taken in order to retain present volunteers and to recruit new ones.

I appreciate this opportunity to appear before you.

Mr. Wellington and I will be happy to answer any questions you may have.

[The prepared statement of Jackie David follows:]

STATEMENT OF JACKIE DAVID

NATIONAL CHAIRMAN, OFFICE OF VOLUNTEER PERSONNEL
AMERICAN RED CROSS
before
SUBCOMMITTEE ON TAXATION AND DEBT MANAGEMENT GENERALLY
COMMITTEE ON FINANCE
UNITED STATES SENATE
on S. 473, APRIL 23, 1982

Mr. Chairman and Members of the Subcommittee:

My name is Jackie David. I am National Chairman of the Office of Volunteer Personnel at the National Headquarters of the American Red Cross. I am accompanied by Edmund Wellington, Jr., a volunteer consultant in our Government Liaison Office.

I am myself a volunteer and I represent and speak for more than 1.4 million Red Cross volunteers who serve their fellow Americans in 3,053 Red Cross chapters all across the nation. 1,723 of these chapters are staffed entirely by volunteers. On their behalf, I urge prompt enactment of Senator Durenberger's bill, S. 473, which would correct a gross inequity by permitting volunteers who use their personal automobiles in their charitable work to deduct from their Federal income taxes the same amount which Government employees are reimbursed for the use of their automobiles on Government business.

As you know, the present mileage allowance for the charitable use of a personal motor vehicle is 9¢ per mile while the use of a personal vehicle for government or business purpose is currently 20¢ per mile.

Thus, a Red Cross volunteer who works in a hospital comforting and aiding the sick is allowed to deduct only 9¢ per mile for driving there while a salesperson calling on that same hospital to make a sale of drugs or medical supplies or equipment is allowed to deduct or is reimbursed 20¢ per mile. The salesperson has the satisfaction not only of making a profit from the sale, but he also has the benefit of receiving more than twice the mileage allowance granted to the volunteer.

Likewise, a Red Cross volunteer reporting to a Red Cross disaster shelter is allowed to deduct only 9¢ per mile to drive there to assist the victims of the disaster while a paid employee of the Federal Emergency Management Agency is reimbursed at the rate of 20¢ per mile to drive to the same shelter.

There is simply no rational argument to support this unfair differential. The same costs of operating a motor vehicle apply whether the owner is a Government employee, a business person, or a Red Cross volunteer. Regardless of ownership, automobiles still burn gasoline, still must be covered by insurance, still depreciate, and still must be maintained and repaired.

Let me give you some examples of the number of miles which some Red Cross volunteers in your own states drive in order to perform their volunteer duties. You can easily infer from these figures the degree of financial sacrifice these people are called upon to make every time they use their personal automobiles.

In my own home chapter of Dallas, our Chairman of Volunteer Drivers drove a round trip of 140 miles from his home to the chapter house for 90 days in 1980-81 for a total of 12,600 miles. Another Dallas volunteer drove a 25 mile round trip 166 times for a total of 4,150 miles in 1980-81.

In order to come to Washington to perform my duties as National Chairman of the Office of Volunteer Personnel, I drive a round trip of 60 miles to and from my home to the Dallas airport. Under the present allowance, I am permitted to deduct only $5.40 whereas the cab fare for this trip is about $50.00. I could take a cab and be reimbursed by the Red Cross. However, since there are so many demands upon the Organization's financial resources, I prefer to drive my own car even at some financial sacrifice to myself.

Senator Danforth would be interested in knowing that the Chairman of Volunteers at the Red Cross Bi-State Chapter in St. Louis drives a round trip of 34 miles five days a week for an annual total of 6,000 miles. Another volunteer in St. Louis drives a round trip of 38 miles one day a week for a yearly total of nearly 2,000 miles a year.

In the Red Cross Rocky Mountain Division which includes all of Colorado and the southeastern third of Wyoming, there are presently more than 13,000 volunteers, many of whom drive substantial distances to fulfill their volunteer responsibilities. The Chapter Chairman in Denver drives 2,300 miles a year on Red Cross business while the Vice Chairman drives 3,800 miles annually.

As these two volunteers live and work in the Denver area, I am certain that the number of miles they drive is modest compared to those driven by volunteers who work in the rural areas of this Division.

In Richmond, Virginia, one volunteer drives her car 10,000 miles a year in service to the Red Cross. Another volunteer there drives 2,200 miles a year to work in a Veterans' Administration hospital.

And so it goes in state after state.

By way of illustrating how unrealistic the present mileage allowance granted to volunteers is, I would like to quote from a study conducted by the Hertz Corporation which states:

> "Average costs to own and run a typical compact-size car in 20 key U.S. cities soared 51% in the past two years to reach 47.3¢ per mile in 1981".

Of the ten cities in the United States in which the Hertz study shows that operating costs are the highest, three are located in states represented by Members of this Subcommittee: Denver is the seventh highest in the nation at 46.6¢ per mile; Houston is eighth at 46.53¢; and St. Louis is ninth at 46.49¢.

Given these figures from Hertz, I am certain you will agree that to grant volunteers an allowance of 20¢ per mile - or less than half the real cost of operating a small compact-size car - is a step which must be taken in order to retain present volunteers and to recruit new ones.

I appreciate this opportunity to appear before you.

Mr. Wellington and I will be happy to answer any questions you may have.

Respectfully submitted,

Jackie David
National Chairman
Office of Volunteer Personnel
American Red Cross

Senator **Packwood**. Thank you very much.
Joe.

STATEMENT OF JOSEPH B. MIZGERD, M.D., ON BEHALF OF THE AMERICAN LUNG ASSOCIATION

Dr. **Mizgerd**. Mr. Chairman and members of the subcommittee, thank you for the opportunity to testify on behalf of the American Lung Association in support of S. 473. I am Joseph B. Mizgerd, a physician specializing in diseases of the lung and the director of pulmonary medicine at the Washington Adventist Hospital. Today I am here in my role as a volunteer and vice president of the Maryland Lung Association.

It is appropriate that the lung association testify on this issue which affects so many volunteers across the country since the American Lung Association is the Nation's oldest voluntary health agency. Our roots go back to the turn of the century when a group of citizens banded together to mount an all-out public education campaign to control and prevent what was then the No. 1 public health enemy, tuberculosis.

Today our mission has expanded to take on all lung diseases—including emphysema, bronchitis, and asthma. Lung diseases are a devastating health problem for the country, ranking third among the leading causes of death. Chronic respiratory disease symptoms are now reported to one of every five persons. These are the reasons so many volunteers—at a conservative estimate about 150,000—help lung associations with our programs and fundraising, still primarily by means of Christmas Seals.

Volunteer work is absolutely essential to citizen health groups like ours. Volunteers by and large depend upon cars to get to meetings and perform their fine services. To give you an example of what I mean, let me cite some figures from the volunteer experience I am most familiar with—the program of the Maryland Lung Association.

There are 39 members of the board of directors for this statewide organization. There are an average of four to six meetings of the board. The average round trip distance is 100 miles and the trip for a few totals up to 220 to 240 miles. For officers of the association there will be from 10 to 20 meetings a year, again averaging 100 miles round trip.

There are another 75 individuals active on program committees who are not board members and they average 100-mile trips three or four times yearly.

A critical group of volunteers are those we call facilitators of programs we sponsor in the six regions of our State. These wonderful people are invaluable in giving of their skills and time in putting on family asthma education programs, smoking cessation clinics, and breathing exercise courses for emphysema patients and their families.

These facilitators are generally respiratory therapists, nurses, physical educators, registereed nurses, and the like, often whose incomes range between $10,000 and $20,000 per year and who, therefore, certainly are not in the wealthy category. All told, there are several hundred such volunteers in the regions who must drive to perform these extremely valuable services.

Our association's policy is to offer to reimburse volunteers for their mileage costs and to be fair about it the rate is set at 20 cents a mile for anyone driving more than 30 miles. Interestingly, none of these volunteers ever ask us for reimbursement since they realize how hard-pressed groups such as ours are for funds these days. However, those who then attempt to claim these expenses as charitable contributions on their Federal tax returns run into an ironic situation.

These volunteers who are considered so essential by Government leaders these days can only deduct 9 cents a mile for an Internal Revenue contribution/tax deduction, while the business deduction and reimbursement of Government employees is 20 cents a mile. Something is seriously amiss when this type of inequity exists. These volunteers I refer to work for thousands of different organizations ranging from hospitals to charitable groups such as Meals on Wheels, which depend heavily on volunteer drivers.

In the past few years skyrocketing gasoline costs have forced thousands of these individuals to cut back or even eliminate their charitable work. The proposed legislation will save all of us taxpayers millions of dollars in the long run by protecting the services in the voluntary sector. If such relief is not forthcoming, and some groups have already had to cut back on services, then the Government will have to step in to meet these needs at considerably greater cost to the taxpayers.

Thank you.

[The prepared statement of Joseph Mizgerd, M.D., follows:]

TESTIMONY
of
JOSEPH B. MIZGERD. M.D.
on behalf of the
AMERICAN LUNG ASSOCIATION

Mr. Chairman and Members of the Subcommittee:

Thank you for the opportunity to testify on behalf of the American Lung Association in support of S. 473. This legislation would give volunteers who use their cars in doing charitable work a more equitable tax deduction allowance for expenses incurred.

I am Joseph B. Mizgerd, a physician specializing in diseases of the lung and the Director of Pulmonary Medicine at the Washington Adventist Hospital. Today, I'm here in my role as a volunteer and Vice President of the Maryland Lung Association.

It is appropriate that the Lung Association testify on this issue which affects so many volunteers across the country since the ALA is the nation's oldest voluntary health agency. Our roots go back to the turn of the century when a group of citizens banded together to mount an all-out public education campaign to control and prevent what was then the number one public health enemy, tuberculosis. Today our mission has expanded to take on all lung diseases -- including emphysema, bronchitis and asthma. Lung diseases are a devastating health problem for the Country, ranking third among the leading causes of death. Chronic respiratory disease symptoms are now reported by one of every five persons. These are the reasons so many volunteers -- at a conservative estimate at least 150,000 --

help lung associations with our programs and fund raising (still primarily by means of Christmas Seals).

Volunteer work is absolutely essential to citizen health groups like ours. And volunteers by and large depend upon cars to get to meetings and to do good works. To give you an example of what I mean let me cite some figures from the volunteer experience I'm most familiar with -- the program of the Maryland Lung Association. There are 39 members of the Board of Directors for this statewide organization. There are an average of four to six meetings of the Board each year and all members usually drive to get to the meeting. The average round trip distance is 100 miles and the trip for a few totals upwards of 220-240 miles. For the officers of the Association there will be from 10 to 20 meetings a year, again averaging 100 miles round trip.

There are another 75 individuals active on program committees who are not Board members and they average 100 mile trips three or four times a year.

A critical group of volunteers are those we call "facilitators" of programs we sponsor in the six regions of our state. These wonderful people are invaluable in giving of their skills and time in putting on family asthma education programs, smoking cessation clinics and breathing exercise courses for emphysema patients and their families. All told, there are several hundred such volunteers in the regions who must drive to perform their service.

Our Association's policy is to offer to reimburse volunteers for their mileage costs and to be fair the rate is set at 20¢ a mile for anyone driving more than 30 miles. Interestingly, none of these volunteers ever ask us for reimbursement since they realize how hard pressed groups such as the lung association are for funds these days. However, those who then attempt to claim these expenses as charitable contributions on their federal tax returns run into an ironic situation.

Isn't it a contradiction in values that these volunteers who are considered so essential by Government leaders these days can only deduct 9 cents a mile for an Internal Revenue charitable contribution tax deduction while the business expense deduction and reimbursement of government employees is 20 cents a mile. Something is seriously out of kilter when this type of inequity exists.

These volunteers I refer to work for thousands of different organizations ranging from hospitals to charitable groups such as Meals on Wheels which depends heavily on volunteer drivers. In the past few years, skyrocketing gasoline costs have forced thousands of these individuals to cut back or even eliminate their charitable work. The proposed legislation will save all of us taxpayers millions of dollars in the long-run by protecting the services in the voluntary sector. If such relief is not forthcoming, and some groups have already had to cut back on services, then the government will have to step in to meet the needs, at considerably more cost to the taxpayer.

We commend Senator Durenburger and the other co-sponsors for proposing S. 473 as a practical and simple step for letting the 40 million volunteers in America know that the work they are contributing without charge is considered just as important as the other vital business of the Country.

Senator **Durenberger**. Thank you very much. I am going to ask State Representative Jane Maroney from Delaware to come up and introduce herself for the record. We had the pleasure of riding up together from the Hyatt Regency this morning where I spoke to the National Conference of State Legislators and she found out that I had to leave early in order to come up here and I asked her to come right along with me.

If you would not mind, Jane, saying a couple of words, I think it will help the record in this case. We have a politician sitting out there with all of those good volunteers and representatives of volunteers. Welcome.

STATEMENT OF HON. JANE MARONEY, STATE REPRESENTATIVE FROM DELAWARE, NATIONAL CONFERENCE OF STATE LEGISLATURES

Ms. **Maroney**. Thank you, Senator. I appreciate the opportunity to interject a voice from the public sector. It appeared to me that what we are hearing at this table this morning are wonderful voices from the private sector which I represent as a volunteer in our local activities in Delaware; namely, the Junior League and the various hospital boards on which I serve.

But at the moment State government is in very great need of volunteers and I think it is so appropriate that the President has endorsed the concept of volunteers and I just want to add my voice to the fact that human services in Delaware could not be served adequately if we also did not have those same people.

Thank you for allowing me to speak. I appreciate it, and thanks for the ride over.

Senator **Durenberger**. Thank you very much. I want to make sure at this point that one of the real fighters for this cause has a statement that she sent over to be introduced in the record and without objection the testimony of Congressperson Barbara A. Mikulski from Maryland will be made part of the record.

[The prepared statement of the Honorable Barbara A. Mikulski follows:]

BARBARA A. MIKULSKI
3D DISTRICT, MARYLAND

COMMITTEES:
INTERSTATE AND
FOREIGN COMMERCE
SUBCOMMITTEES:
TRANSPORTATION AND
COMMERCE
HEALTH AND THE ENVIRONMENT

MERCHANT MARINE AND
FISHERIES
SUBCOMMITTEES:
MERCHANT MARINE
COAST GUARD
OCEANOGRAPHY

Congress of the United States
House of Representatives
Washington, D.C. 20515

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BALTIMORE, MARYLAND 21231
(301) 962-4481

April 23, 1982

TESTIMONY FOR THE SENATE FINANCE COMMITTEE
RE: S. 473

Mr. Chairman, I appreciate being given the chance to submit testimony in support of S. 473. It is most appropriate that this bill be considered during National Volunteer Week, a well-deserved, hard-earned accolade for a group that is largely invisible. Long before volunteerism became chic, they were at work by the millions.

Volunteers are a major labor force in the United States. Together they contribute some $111 billion to this nation measured in time and services. They are the candy-stripers, the scout leaders, the civil rights activists, the veterans, the chamber of commerce members, the Kiwanis Club, the Blue-Chip-In participants, the meals on wheels bringers, the donaters and the telethoners.

But the volunteers' contribution can not be measured, and should not be measured, in time and money alone. We must also measure it in terms of the value system it represents -- a sense of caring, and a heartfelt motivation to make the world just a little bit better. Our volunteers are working at full capacity, selflessly and effectively. It is time that we return something to these tireless individuals.

With the tremendous losses in federal social programs there is a new call to our volunteer community to step forward and fill the vacuum. Volunteers have been asked to substitute for the drug rehabilitation programs, the aid to the handicapped, the loss of CETA, and a host of other needed social programs. Its a tall order and the volunteers are going to need help.

We all seem to assume that volunteers are somehow immune to the societal pressures that affect businesses. There are tax credits for oil companies, and expense accounts for executives, but volunteers are somehow expected to be an endless reservoir of resources, money and energy.

Inflation has affected the non-profit world in the same way that it has affected government and profit-making organizations. Those ladies who work the auxiliary at the hospital are under pressure to contribute additional income to the family. That boy scout troop leader may be looking for a second job, or may have been laid off from our steel, housing, or auto industry. That meals on wheels volunteer may have to help out grandma because her Medicare costs have increased. In fact, many volunteers are on fixed incomes themselves. Times are just as tough for the volunteer as for the mega-corporation, and yet we blithely expect the volunteers to give more and more.

Everyone has become more conscious of out-of-pocket expenses. Many volunteers have to travel miles and miles to do the good work they do -- driving to meetings, to youth centers, to visit the housebound. Three million of our volunteers are giving their resources to the federal government, working in parks, for the Veterans Administration, and the Coast Guard Auxiliary. In turn the federal government says, "do more."

I can honestly say that I am not asking for special treatment for a priveleged few, or a new loophole for some would-be tax evaders. I submit this testimony on behalf of the "good guys" of our society -- men and women -- who are out there every day helping their neighbors and ours. They have never asked for a reward; but now they are asking for relief. If it costs 20 cents a mile to operate a car for government purposes, it costs just as much to use it as a volunteer. And it is time that we recognize that economic reality of life.

All over the United States right now, volunteers using their own cars are providing essential services to their fellow citizens. In my own community of Baltimore, for example, Meals on Wheels of central Maryland serves 2,050 meals every day by driving 150,000 miles a week. Life Support Project volunteers visit elderly nursing home patients who would otherwise have no visitors. Last year, they made over 6,500 visits to people in nursing homes. I know of two patients in cancer clinics who were driven to treatment 40 times last year -- a total of 2,894 miles.

These are just some of the examples of the work done every day by volunteers, without salary, without payment -- and too often without recognition of any kind, but now these programs are in trouble. The cost of gasoline is a serious threat to the kind of neighbor-helping society we as Americans are so proud of. Every day, we learn of more programs which have had to cut back, to retrench, to deny services to needy clients -- because they do not have enough drivers.

I do not want to lose the volunteer programs that are the bonding fabric in our society. I do not think we can afford to have this kind of work done by salaried employees. We can not afford it financially -- and we can not afford it spiritually.

Finally, I am deeply concerned because the American people are now suffering under one of the largest cutbacks in government programs in our nation's history. Thousands of government programs providing essential services to millions of Americans have been eliminated. The need for charitable organizations and volunteers to fill this void is enormous. It is imperative that our government adjust its tax policy to encourage citizens to perform charitable works.

I urge this Committee to take action to keep volunteers in the programs and on the roads -- pass S. 473. Thank you.

Senator **DURENBERGER**. I am going tp quote just one part that is illustrative, as your examples here have been illustrative, of the need, from her statement.

> All over the United States right now, volunteers using their own cars are providing essential services to their fellow citizens. In my own community of Baltimore, for example—

I guess it is "Balmer,"

> Meals on Wheels of central Maryland serves 2,050 meals every day by driving 150,000 miles a week. Life Support Project—

That is the name of the project,

> volunteers visit elderly nursing home patients who would othewise have no visitors. Last year, they made 6,500 visits to people in nursing homes. I know of two patients in cancer clinics who were driven to treatment 40 times last year, a total of 2,904 miles.

Just three more examples to add to examples that you have given us today. Without any objection from anybody, your full statements will be made part of the record here today. I am just hopeful that while we have this great commitment to explore private sector initiatives, and so far that has been reflected in broad general terms, that everybody ought to give more in terms of money and take advantage of the contribution deduction and now the above-the-line charitable, I would hope that out of this whole effort to recognize private sector initiatives in this country we would give the kind of broad-based feeling that I got here this morning about the disparity between so-called business and so-called volunteer.

I mean, everybody is doing basically the same thing. They are providing needed goods or services for their community and this what I call discrimination against the voluntary delivery of services in this country is abominable. You are discriminating against those cancer patients who cannot get somebody to drive them to the clinic and you are discriminating against people who live in rural areas who do not have taxicabs or some other alternative; they only have their car to help other people.

And it is just, to my way of thinking, to have IRS or anybody come up here and justify it on some technical terms about depreciation and maintenance and all of that sort of stuff is just really hard for me to understand.

So I want to express my appreciation to the entire private sector and particularly to Jane Maroney for coming up and representing many people in the so-called public sector at the State and local government level, and she expressed it so well. People who could not perform their public services without the assistance of persons who give of themselves in a private sense. So I thank you all for being here today and, who knows, lightning might strike twice in a row.

Nobody thought we were going to get the charitable above-the-line legislation last year, and we got it. We might be lucky this year. Thank you all very much for being here.

The next bill we will consider is S. 474, introduced by me, which would provide that the amount of the standard rate medical expense deduction allowable for expenses incurred in the operation of a motor vehicle would be determined in the same manner Government employees determine reimbursement for the use of their vehicles in Government business.

You can see some consistency in my public policy logic and our witness today will be Grace Powers Monaco, attorney-at-law and president of the Candlelighters Foundation on behalf of the Metropolitan Candlelighters, Washington, D.C. Grace, we appreciate your being here. Your full statement will be made a part of the record. You may abbreviate it or do what else you will in 5 minutes. I thank you for being here.

STATEMENT OF GRACE POWERS MONACO, PRESIDENT, CANDLELIGHTERS FOUNDATION, ON BEHALF OF METROPOLITAN CANDLELIGHTERS, WASHINGTON, D.C.

Ms. MONACO. Thank you, Senator, I appreciate the statement for having my statement printed in the record and I offer you a greeting from the Candlelighters of the Twin Cities area and on behalf of the people who spoke before. I also want to commend the State of Minnesota for some of the voluntary activities that have helped elderly cancer patients as well as the ones I represent, particularly the Volunteers of America CARE facilities, who have such wonderful volunteer programs in your State.

Senator DURENBERGER. Thank you very much.

Ms. MONACO. Before I indicate why it is so important to cancer patients, particularly the area that I represent, which is the families of pediatric and adolescent cancer patients, why we should have an expansion of the ability to deduct their automobile travel, I think I would like to tell you a little bit about the specialized circumstances of children and adolescents with cancer, because this puts in perspective, very sharp perspective, some problems that we have and some needs that we have that are not present in the adult cancer community.

Cancer in children is only 1 percent of the cancer problem in this country. It may be the largest killer of children next to accidents, but it is only 1 percent of the cancer problem. For that reason, we do not have facilities around the corner to treat our children. Most of our families have to travel a considerable distance for their cancer services. That considerable distance may be only 250 to 500 miles, but in many instances it means thousands of miles a year that families must travel in order to get their children the treatment that they need.

In many instances, because the very, very special and specialized services our children need cannot economically be offered in every region that has even a cancer treatment center or a children's hospital, they may have to travel clear across the country to receive those services. A child in Minnesota or a child in Wisconsin that may want to save a leg and need a bone replacement to do that may have to travel to Sloan Kettering or to Sidney Farber in Boston, for example.

A child that needs a bone marrow transplant, which is now in acute mylocetic leukemia a treatment of choice, must travel to one of five bone marrow transplant centers in different parts of the country. They cannot always be assured that those services are going to be available right around the corner.

Eighty-two percent of our families do still rely on their wheels as their most important part in the transportation picture, and the median cost for that ranges between $250 and $1,000 a year. That just is for running the automobile. That does not include the indirect costs of lodging away from home, meals away from home, child care for children remaining at home that are a real problem for our families.

So, of course, we are very interested and supportive for any expansion of the ability to deduct for automobile transport, so this will be of assistance to us. But I would also like to put a bug in your ear, Senator, about some other legislation that is needed.

Any catastrophic coverage that we consider in the future in this committee and in other committees should certainly look at the cost of transportation for pediatric and adolescent cancer patients and their families as a part of the medical care package that is offered, both by private insurers and by the medicare-medicaid type arrangements.

I will say that not only will this help avoid bankruptcy for many families but it will also help reduce the cost of medical care because it will change the attitude of reinventing the wheel in every segment of our country for services that are occasionally offered and give us the opportunity to concentrate those services which are used only infrequently or only by a small segment of the population in one area and the transportation costs to get to and from those reimbursed will be far less than duplicating services.

About 13 percent of our families have to spend over $8,000 a year in transportation costs, mostly in plane fare, to get their children from a place that has no care to a place that does. For example, in Nevada there are no treatment facilities for pediatric and adolescent cancer and they must all go to California. The costs of care

are tremendous. The transportation costs are overwhelming. You have enough of a burden to overcome when you have a child with cancer.

Children have a chance at cure today in the medical area, but they may be deprived of this if the transportation costs are not picked up because families cannot afford to transport them to where they will receive the best care. So we certainly applaud every effort that you have made to increase the opportunities for us to deduct the routine automobile costs, but we would also ask for you to consider future legislation to include costs related to the plane and other types of expenses that we have.

Thank you, Senator.

Senator DURENBERGER. Thank you. Let me clarify. I think you were making several points, one that within the cost of care is an element called essential transportation. Currently the code permits payment of money to others to be deducted; for example, bus, taxi, train, ambulance hire. But with regard to your own vehcle within the family, as the case may be, there is a 9-cents-per-mile limitation, so this bill in effect brings some equity within the transportation sector, right? That is about all we do with this bill.

Ms. MONACO. I know. I know.

Senator DURENBERGER. Now you are suggesting two things, that as we are looking at this whole area of the essential cost and the difficulty of meeting the costs and the essential health care, particularly, like the cancer situations and so on, that there are other costs that are currently not either reimbursable or deductible, and you mentioned child care as an example and some other related costs, and you suggest we look into that area.

Is that correct?

Ms. MONACO. I would suggest that, but really stress the reimbursable problem in the area of transport and the like because it does not help you to be able to deduct something if your income is so low that you do not have the money to pay for it to begin with.

Senator DURENBERGER. So you are suggesting, then, with regard to third party coverage for medical expenses.

Ms. MONACO. That is correct.

Senator DURENBERGER. That particularly when we get into major medical and catastrophic that we need a more comprehensive definition of reimbursable expenses, is that correct?

Ms. MONACO. Indeed, sir, I am.

[The prepared statement of Grace Powers Monaco follows:]

STATEMENT
BY
GRACE POWERS MONACO, J.D.
PRESIDENT
CANDLELIGHTERS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

My name is Grace Powers Monaco. I am representing CANDLELIGHTERS, an international coalition of families of children and adolescents affected by cancer in 49 states and 10 foreign countries.

The legislation before this Committee seeks to raise the amount of deductions for the operation of an automobile available as a medical expense. I reproduce below tables from a survey done by Candlelighter families by Public Research Associates in New Jersey in 1980 which should indicate to this Committee the importance of and cost of transportation in the treatment of a child with cancer:

DISTANCE FROM MEDICAL CENTER (Miles)

1 - 25	35%
26 - 50	20%
51 - 75	9%
76 - 100	9%
101 - 125	1%
126 - 150	3%
151 - 175	1%
176 - 200	2%
Over 200	13%
No Response	7%

MODE OF TRAVEL TO CENTER

Car	82%
Bus	6%
Plane	7%
Other	4%
No Response	1%

COST OF TRANSPORTATION TO CENTER

\$ 1 - \$ 100	10%
\$ 101 - \$ 300	18%
\$ 301 - \$ 650	13%
\$ 651 - \$1,000	12%
\$1,001 - \$2,000	10%
\$2,001 - \$4,000	6%
\$4,001 - \$8,000	3%
Over \$8,000	1%
No Response	27%

The most telling financial impact on our families is the plane fare needed to transport families from states like Nevada where there are no facilities for the treatment of cancer in children to California which may amount to \$6-8,000 a year per family. However, in other states such as Arkansas, New Mexico, and Washington, families may have to drive 240 - 500 miles for treatment. Gas, car upkeep, meals away from home can gut a family's cash money.

The biggest problem is the cash money needed for transportation when you have to drive 140 miles to the treatment center. When you have a family of 7 to feed, there isn't any money left for extras. Insurance pays for the hospital bills, but the added expenses are catastrophic. A Mother in Wisconsin.

One illustration is the circumstances presented for pediatric cancer patients in Nevada. This child and the family unit has three treatment options. The closest oncology care centers are in California (San Diego, Los Angeles or San Francisco). They are from 250 to 460 miles away. Air transportation ranges from $150-$300 per person round trip and remember that a parent must always accompany the child. Visits to the clinic vary in frequency from once every two weeks to once every eight weeks. When a child is hospitalized, there are food and lodging costs for the parents and often lost wages.

One Nevada family spent over $6000 in out of pocket expenses the first year their child was diagnosed. A few months ago they spent $750 for a five day trip to San Diego for tests. When they have to stay several days, the family makes the trip across the desert in a camper to save on lodging.

Another Nevada family recently had to spend $2,350 in just seven weeks for out-of-pocket expenses incurred during the treatment of their child's cancer. These expenses were for gas, lodging and food incidental to their needs when they were at their treatment facility.

For this reason we are certainly in favor of raising the deductible for all travel.

However, let me leave another thought for the future with this Committee. Although cancer is the second leading cause of death for our children, children acount for only 1% of the population affected by cancer in this country. What this means is that specialized cancer care facilities to provide skilled treatment for children are not right around the corner as they are for the adult cancer population. What this means is that even if a family can be assured that all its direct medical expenses are paid, transportation costs to a care facility, board, lodging, child care for other children remaining at home, loss of work time must be borne by the family and indeed are as "direct" costs as the medical treatment itself.

A Michigan teenager with a cancerous bone in her right leg. Local doctors were ready to amputate but contacted a specialist in New York that led to a special operation at Memorial Sloan Kettering that saved the teenager's leg. Her mother had to quit her job in order to accompany the child to New York for treatment and to care for her. The mother's living expenses in New York, travel bills, and caring for five other children completely depleted the family's savings. Thus, even though the family's insurance covered most of the teenager's medical bills and the State Crippled Childrens Program paid remaining expenses, the family was in effect destitute.

A further example involves a divorced mother with four children in Irving, Texas. Her daughter has had osteogenic sarcoma (amputee) since 1972. Every third week she goes to M.D. Anderson with her daughter for treatment for a week stay. She works weekends to make up lost pay and after using her vacation time she has her pay docked. The Texas rehabilitation agency will not help with her daughter's prosthesis or education because they assume she will die.

A further example is the plight of families whose children need bone marrow transplants and must travel to one of the half dozen pediatric facilities in the country that can offer this service with the same indirect expenses covered above.

It is obvious that catastrophic coverage for pediatric/adolescent cancer facilities to avoid the transportation and indirect expense burdens. Candlelighters suggests an approach to this problem which will provide optimum care to the child and true protection to the parent from catastrophic expenses.

Candlelighters suggests that catastrophic coverage for pediatric cancer must include transportation costs.

If it does not, we are bankrupting families or depriving children of the care of excellence they need.

Senator DURENBERGER. All right. Thank you very much for your testimony and for all work in this area. We appreciate it.

The next bill we will hear this morning is S. 710, a bill introduced by Senators Durenberger, Boren, and others which would generally require the payment of a 10-percent manufacturers' excise tax on the sale of fishing tackle and parts and accessories on a quarterly basis, the way it always used to be before the last Treasury came along instead of the present monthly or semimonthly basis.

We have today a panel consisting of Mr. Gene Howard, vice president, planning and administration, Zebco, Tulsa, Okla.; Mr. Paul A. Mulready, member, board of directors, Johnson Fishing, Inc., Mankato, Minn.; and Mr. Thomas R. Schedler, executive vice president, American Fishing Tackle Manufacturers Association. Arlington Heights, Ill.

Gentleman, welcome to the annual battle. Dave Boren and I have been tossing your cause back and forth between us. Depending on the outcome of the biannual elections we are more dedicated than ever to the cause and hopefully this year might be an opportunity to do something about it.

Dave was going to try to be here this morning and since he is not here now let me just briefly read his statement into the record:

> I very much appreciate Chairman Packwood's inclusion of S. 710 on today's agenda. This bill, which I introduced last year as S. 1549 and which was reintroduced this year as S. 710, is a vital interest to many small businesses which manufacture fishing tackle. Under current law, fishing tackle manufacturers pay a ten percent excise tax on products being shipped approximately 4½ months before they receive payments for the item.
>
> Since over 85 percent of all shipments occur within three quarters, manufacturers are forced to finance their tax for a considerable length of time. This creates an external market force affecting employment, inflation and stable production throughout the year and substantial financial hardship as a result of the nearly 400 fishing tackle manufacturers who pay the tax.
>
> S. 710 would defer the payment of this excise tax for one quarter in each of the first three quarters of the federal fiscal year, with the final quarter payments due at such time as the Treasury Secretary prescribes. The legislation would greatly reduce the hardships being experienced by this industry and would have no negative impact on the revenue which is earmarked for the Dingell-Johnson program.

That seems to me to be a very good statement of the cause. We look forward to hearing whatever elaboration each of you might make on this summary. If you have prepared statements, they will be made part of the record in full and we will start with whoever wants to go first.

STATEMENT OF THOMAS R. SCHEDLER, EXECUTIVE VICE PRESIDENT, AMERICAN FISHING TACKLE MANUFACTURERS ASSOCIATION

Mr. SCHEDLER. Thank you, Senator Durenberger. On behalf of the American Fishing Tackle Manufacturers, we would like to thank you and the Senate subcommittee for giving us the opportunity to present our views on this very important matter to the industry.

My name is Tom Schedler. I am executive vice president of the association and I will endeavor this morning to comment very briefly on the main points regarding our support of S. 710 and then to let you hear directly from two manufacturers who have to cope daily with the financial difficulties that are caused by the current regulations governing the Dingell-Johnson program.

The American Fishing Tackle Manufacturers Association is a trade association comprised of some 400 manufacturers 97 percent of which are small businesses. And it is our contention that one of the very unique qualities of the Dingell-Johnson excise tax is that unlike other excise taxes this 10-percent tax was self-imposed voluntarily by the fishing tackle industry back in 1952 and our support for the program has never wavered since that time.

So we wish to make it very clear and emphasize this morning that AFTMA is not opposed to the D–J tax as such but rather to the current payment schedule as has been established by the Department of the Treasury.

As you may know, the funds that are realized from the D–J tax do provide States with a much-needed source of revenue for managing the recreational fishery. License fees provide the majority of the funds, but the Dingell-Johnson program does provide additional funds to enable the States to carry out their programs, although we recognize the fact that more moneys are still needed.

Because of the nature of the industry, Senator, it is a unique necessity for fishing tackle manufacturers to have to extend credit terms to their customers to prevent loss of sales, and this, of course, translates, and impacts on employment, production, et cetera. So in order to pay the D–J tax on a timely basis, that is, shortly after shipment, most fishing tackle companies are forced to obtain expensive short-term financing before they themselves even receive payment for their goods.

In others words, they have to go to the banks to borrow money to pay the Federal Government. This is inflationary and we do not believe that this was the intent of the legislation back in 1952.

Now while there are other inequities that are in the Dingell-Johnson program, such as the inadequate enforcement by the Internal Revenue Service, S. 710 only seeks to defer the payment of the D–J tax for a minimum of 90 days, but no more than 180 days and requires that all payments still be made in the same fiscal year, thereby negating any revenue impact that might be perceived.

The D–J tax payments would be deferred in the first three quarters of the Government's fiscal year to the next quarter, but the last quarter payments would be due in that same quarter. So in effect the bill calls for only bookkeeping changes and the only potential loss to the Government could be some slight interest income, as we see it.

The current regulations it should be brought out, as were imposed by the Department of Treasury, really do distort the economic forces governing the production and sale of taxed fishing tackle items. In fact, in stages Treasury, rather unilaterally, I might add, has stepped up the timetable for the payment of the tax so that now, manufacturers are required to make payments twice monthly.

We do believe that S. 710 is in conformity with the Regulatory Flexibility Act and does not endanger in any way the Federal aid in fish restoration program, more commonly known as the Dingell-Johnson program. In fact, we believe it would enhance it. S. 710 is consistent with the intent of the Dingell-Johnson act, when it was established in 1952, and as such, should not be viewed as being precedent setting for other tax interests.

Except for Treasury's opposition, Senator, as you are aware, this is a noncontroversial issue. In previous sessions of Congress, identical legislation passed the Senate Finance Committee, was approved with no dissenting votes, and also passed the House Ways and Means Commiteee and the full House, again with no dissenting votes. Only the fact that Treasury opposed it last year prevented it from reaching the Senate floor at the close of the 96th Congress.

We urgently ask that S. 710 be given favorable and speedy consideration so that finally, during the 97th Congress, the much-needed relief sought in this bill will be provided to the fishing tackle manufacturers, small businessmen, who otherwise will continue to suffer unjust, uncalled-for hardships.

[The prepared statement of Thomas R. Schedler follows:]

Statement of

THOMAS R. SCHEDLER
Executive Vice President

The American Fishing Tackle Manufacturers Association

Mr. Chairman: The American Fishing Tackle Manufacturers Association (AFTMA) is a national trade association headquartered in Arlington Heights, Illinois representing 400 manufacturers of fishing tackle and related equipment, which equates to over 95 percent of the industry. Of AFTMA's total membership, 97 percent of our firms may be defined as small businesses.

The basic objective of AFTMA is to educate, guide and assist the members of the Association in matters of common interest so that the members shall maintain a high standard of conduct, efficiency, and usefulness to the industry, to the government, and to the public.

The Association is the instrument by which business competitors cooperate to solve common problems, to launch and carry out industry-wide endeavors, to put individual knowledge and experience to work for all.

For 30 years, the fishing tackle industry has totally supported the concept of paying an excise tax on their equipment which, in turn, is earmarked for the Federal Aid in Fish Restoration Program, commonly known as the Dingell-Johnson or D-J Fund. This fund is one of the most substantial trusts available for conservation and fish restoration. The industry advocated the self-imposed excise tax legislation in 1952, further re-endorsed its support in 1964 and our position has not changed.

Before going any further, it should be explained that the Dingell-Johnson Program was the culmination of many years of effort by conservationists and enlightened sportsmen and fishing tackle manufacturers who saw a need to bolster the efforts of state fish and wildlife agencies in managing recreational fisheries. Congressman John Dingell of Michigan and Senator Edwin Johnson of Colorado introduced the legislation which provided that the ten percent manufacturer's excise tax on fishing rods, reels, creels, and artificial lures, baits, and flies be made available to states and territories for management projects and sport fishing recreation. In conjunction, the states must assure that their fishing license revenues are dedicated for only the administration of state fish and wildlife agencies.

The excise tax, collected by the manufacturer or importer and paid to the Treasury Department, is appropriated to the U.S. Fish and Wildlife Service annually for apportionment among the states and territories. Each state's share is based 60 percent on the number of licensed sport fishermen and 40 percent on the land and water area of the state. No state may receive more than five percent nor less that one percent of the total.

The cost of each D-J project is supported with 25 percent state funds and 75 percent Federal funds with most of the state money derived from sport fishing license revenues. Thus, because of the Dingell-Johnson program, most of America's 64 million sport fishermen benefit from the wide-range of projects aimed at helping our nation's fisheries.

The major problems confronting the fishing tackle industry are primarily as a result of the time schedule that is now required by Section 4161(a) of the Internal Revenue Code of 1954 for the payment of the ten percent tax on the value of applicable fishing tackle items. AFTMA and its member manufacturers do not challenge the percentage level of taxation, nor the amount of money that is ultimately collected from manufacturers throughout the year.

Under the current law, if the liability for excise tax reported exceeds $2,000 for any month in the preceding calendar quarter, the manufacturer must deposit his excise tax on a semi-monthly basis within nine days after the close of the period involved. Consequently, the manufacturer is required to deposit his excise tax at a time closely coinciding with the date of shipment. This is when the problem begins for small fishing tackle businesses. Currently, fishing tackle manufacturers do not receive payment for their products on the average of 4.4 months after the time of shipment.

The lag time between the shipping date and the time when payment is received from the vendee is a direct result of the fact that the fishing tackle industry has had to adhere to a highly seasonable, but predictable production cycle that basically begins with product development during the late spring and summer months; order taking during the latter part of the summer; and heavy shipments starting in October and continuing through March. In order to induce distributors and retailers to purchase the manufacturer's goods during periods of the year when they are not being heavily sold directly to the sport fisherman, it has been necessary for every member of the industry to grant "dating" terms to vendees to maintain steady employment and production.

The granting of these terms is dictated by the industry's customers and not the industry. This situation did not exist 30 years ago when the D-J fund was created. New problems have developed since 1952 which mandate that the industry seek relief from the contemporary problems of this increasingly serious dilemma of paying an excise tax well in advance of getting paid for the products taxed.

The overall consequence of this entire situation has been the ever-increasing need for small to medium sized businesses particularly, to obtain expensive, short-term financing in a highly competitive money market for a tax that should not have to be paid until the manufacturer receives his payment within a reasonable time period.

Other industries still covered by excise taxes such as gasoline, truck parts, inner tubes and tires, lubricating oil, etc., cannot demonstrate the seasonal shipping variations to the extent that exist for fishing tackle manufacturers and this is why we believe our cause is unique and non-precedent setting. Worse yet, as opposed to other industries subject to excise taxes, 97 percent of the tackle manufacturers are small businesses wherein cash flow is proportionately a much more intense problem, affecting every aspect of their operations.

Under the present law, a concentration of shipments also means a concentration of excise tax payments at a time when cash flow is crucial because of the extended payment terms which are necessary and prevelant in the industry. Consequently, most of the small fishing tackle businesses are forced to use short-term financing in a highly competitive market to pay the excise tax. The current excise tax payment schedule is causing substantial cash flow hardships affecting absolutely every other phase of the fishing tackle manufacturer's operation, from the purchase of components to employment.

Like many other types of businesses across the U.S., fishing tackle companies must also meet their obligations for various production costs and business taxes which are traditionally related to the manufacturing and sale of a product. But, the application of the ten percent excise tax on fishing tackle shipments, that are earmarked solely for the Dingell-Johnson fund and furthermore, a fund which only the fishing tackle industry pays for, is a special tax in general comparison to vendors of other products. In AFTMA's opinion, the schedule for payment of excise tax can be adjusted to reasonably meet the specific cash flow and operational needs of the industry without endangering the well-being of the trust fund which, as noted earlier, is totally supported by all manufacturers.

AFTMA and the fishing tackle manufacturers whose products are covered by the excise tax seek to amend Section 4161(a) of the Internal Revenue Code of 1954 in regard to the imposition and collection of the ten percent excise tax.

The proposed bill, S. 710, merely seeks to defer the payment of excise tax by the manufacturer for a minimum of 90 days, but not more than 180 days. This bill would require the manufacturer to pay the full amount of excise tax due at the end of the quarter immediately following the quarter in which shipment was made to the vendee. The only exception would be for fourth quarter shipments for which the excise tax will be paid as usual in order to avoid any revenue or budgetary affects on the D-J program. The manufacturer is still totally responsible for the collection and deposit of excise tax, regardless of the status of his receivables at the time when the tax is due under this bill's proposed schedule for payments.

It is AFTMA's strong belief that excise taxes, which are earmarked for specific trust activities, should be imposed in such a way as to effect the least possible distortion in the economic forces governing the production of the items taxed. The proposed bill does not endanger, in any way, the Federal Aid in Fish Restoration program and provides a much needed stimulus for fishing tackle manufacturers to further expand their production, stabilize employment and reduce the inflationary pressure which has resulted from the current requirement to pay excise tax on products shipped well before the payment has been received.

S. 710 is an equitable compromise between maintaining a strong Federal program for conservation and fish restoration and at the same time providing much needed relief for small manufacturers thereby enabling them to further expand their production, stabilize their employment throughout the year and reduce the unnecessary financial pressure which has resulted from the requirement to pay excise tax on shipments in advance of receiving payment from their customers.

Positive action by the 97th Congress to reduce the hardship resulting from premature payment of excise taxes can and will have a dramatic effect on an entire industry, the majority of whom are small businesses.

The proposed legislation is highly important to the fishing tackle industry. Therefore, AFTMA, on behalf of its membership and as a spokesman for the fishing tackle industry, urges that favorable consideration be given to S. 710. AFTMA wishes to thank the members of the Subcommittee for this opportunity to present our views and background information in support of S. 710. We will be happy to answer any questions that you might have.

Summary of Principal Points
Made By The
American Fishing Tackle Manufacturers Association
In Support Of
S. 710

1. Unlike other excise taxes, the ten percent Dingell-Johnson (D-J) excise tax was self imposed by the fishing tackle industry in 1952.

2. The AFTMA is not opposed to the D-J tax, as such, but to the current payment schedule as has been established by the Department of Treasury.

3. The funds realized from the D-J tax provide states with a much needed source of revenue for managing the recreational fisheries.

4. It is a unique necessity for fishing tackle manufacturers to have to extend credit terms to its customers to prevent loss of sales.

5. In order to pay the D-J excise tax on a timely basis, most fishing tackle companies are forced to obtain expensive short-term financing before they themselves even receive payment for their goods. The effect of this on the consumer is inflationary.

6. S. 710 only seeks to defer the payment of the D-J tax for a minimum of 90 days, but no more than 180 days, but will still require all payments to be made in the same fiscal year.

7. The D-J tax payments would be deferred in the first three quarters of the government's fiscal year, to the next quarter, but last quarter payments would still be due in that same quarter.

8. The revenue impact of S. 710 on the U.S. Treasury would be minimal. This bill, in essence, only changes the manner of bookkeeping and the only potential loss to the government would be some slight interest income.

9. The current payment regulations, as imposed by the Department of Treasury, distort the economic forces governing the production and sale of the taxed fishing tackle items.

10. S. 710 is in conformity with the Regulatory Flexibility Act and does not endanger, in any way, the Federal Aid in Fish Restoration Program, more commonly known as the D-J program.

11. Since the fishing tackle industry is comprised of 97 percent small businesses, it is small business which is being hurt by the current excise tax payment requirements.

12. S. 710 is consistant with the intent of the D-J Act, when it was established in 1952, and as such, should not be viewed as being precedent-setting for other excise tax interests.

Senator **DURENBERGER**. Thank you very much. Who is next?

STATEMENT OF PAUL A. MULREADY, MEMBER, BOARD OF DIRECTORS, JOHNSON FISHING, INC.

Mr. **MULREADY**. Thank you. Good morning, Senator. We appreciate the opportunity to appear today and also to have the opportunity to have my prepared statement entered as part of the record. I just very briefly would like to perhaps amplify and add to that.

I guess the principal concern that we in the fishing tackle industry have is that the collection speedup on our fishing tackle excise taxes has the effect of giving us a tax on a tax because of the interest on the borrowing of funds to meet the timeliness of payments of excise tax. We are an industry which struggles somewhat anyway. We tend to be made up primarily of small business and that borrowing seasonally creates a hardship which has an inflationary effect, really, on the products that we produce.

Our industry is unique in its seasonality. Really, the principal retail buying season for many years has been the April, May, June period, but we, through what we believe are rather creative marketing programs, have been able to spread out the calendarization of our sales throughout the year, which has had the effect of leveling employment, allowing us to manage our businesses in a much better fashion.

Treasury's opposition is based on the concern that they would be setting a precedent by giving our industry the privilege of changing the time for payment of excise taxes, and we claim that we do have some uniqueness in our business because of its seasonality, as opposed to some of the other excise taxed kinds of products, such as liquor, gasoline, and automobile and truck tires, are not simply seasonal business like ours.

Our industry, as Tom has indicated, has always been very supportive of this because we recognize the great accomplishments of the funds from Dingell-Johnson. We are simply saying that we want to get rid of the tax on our tax by delaying the time for payment of these excise taxes, which creates a hardship on our businesses and the necessity for dating that we have granted to our customers is borne out by the fact that we have been able to spread our sales and our production seasons throughout virtually the entire year.

That has had a beneficial impact on our businesses. It certainly has had a benefit for consumers and the communities in which we operate. We have stabilized employment because of our own efforts to do this.

Essentially what happens is that we have customers who say yes, I want to buy your goods and I will be happy to take the shipment in November, but I cannot pay for it until April or May when we begin to collect from the resale of that at the retail level, and many of our customers say do anything you want with the product or the prices or anything else, but do not remove our dating terms because there is no way that we can really pay you.

So we have extended credit to these people. It sometimes runs as much as 6 to 7 months, thereby not collecting revenues from our sales but still having to pay the excise taxes at the time of shipment, and relief from having to do that with no revenue impact on Treasury really within the same fiscal year we think is a reasonable request and that is what we are searching for.

[The prepared statement of Paul A. Mulready follows:]

Statement of

PAUL A. MULREADY
Johnson Fishing, Inc.
Mankato, Minnesota

Mr. Chairman, and members of the Subcommittee, my name is Paul A. Mulready. I am Vice President of Johnson Fishing, Inc., a company headquartered in Minnesota which manufactures fishing rods and reels, electric trolling motors and artificial baits and lures.

It is well known that the fishing tackle industry in the United States is largely made up of small, entrepreneurial companies. In fact, about 97% of the companies engaged in manufacturing fishing tackle in the United States qualify as small businesses under the federal definition of that status. These small businesses all tend to struggle because of the highly seasonal nature of the fishing tackle retail business. The well-established trade practice is for manufacturers to develop new products and programs and introduce them to wholesalers and retailers during the late spring and summer months of each year, to book future orders during the late summer and early fall, to concentrate shipments of orders in the October through March period but not collect payment for the goods until the April-May-June period of each year.

The benefit to manufacturers in extending late invoice dating to customers is that it tends to level out and sustain employment throughout the whole year. Manufacturers of tackle can produce and ship goods over a greater portion of the year, even though the prime season for consumers to buy tackle at retail occurs in the late winter through early spring period.

If manufacturers did not extend dating terms to customers, it is likely that wholesalers and retailers would tend to accept goods only when they are immediately placed on sale to consumers, and this would have a tendency to shrink the overall size of the industry, and the base on which fishing tackle excise taxes are paid.

Like all manufacturers, the producers of fishing tackle have faced high financing costs for all aspects of their businesses in recent years, mostly related to the financing of inventories and accounts receivable -- again -- because of the seasonal nature of the business.

Tackle manufacturers recognized back in 1952 the benefits that they -- and the nation as a whole -- would gain from a well-organized and well-financed fish restoration system in the country. The tackle manufacturers not only supported but enthusiastically sought the imposition of an excise tax on their own products as a sensible and manageable means of financing such a program of conservation and replenishment of their fishing resources. Their support was reasserted in 1964, when a number of industries sought to abolish all excise taxes on manufactured goods and services. And, today, fishing tackle manufacturers continue to appreciate and defend the indispensable fisheries resource programs which are funded under the Dingell-Johnson legislation.

The only real problem is that the Internal Revenue Service Code has permitted the Treasury Department to speed up the time of collection of the excise taxes from the manufacturers, now on a semi-monthly basis. During the peak shipping season, tackle manufacturers must borrow funds at high interest rates in order to make timely payments of excise taxes, so they are -- in effect -- paying a "tax on a tax" because of this interest.

What we are seeking is very simple. Rather than having to deposit excise taxes twice a month, even though we don't collect payment for the taxed goods for many months in most cases, we ask that the taxes be made payable at the end of the quarter following the quarter in which shipment was made. Under that system, some taxes would be paid within 90 days of shipment -- or -- at the most 180 days following shipment. Furthermore, the manufacturers ask for this scheduling only for three quarters of the year, with the taxes to be deposited as they presently are during the fourth quarter of the fiscal year. Under such a system, there would be no revenue or budgetary impact on the Dingell-Johnson Program.

We believe that the fishing tackle industry situation is different from other industries that produce goods covered by excise taxes. Such products as gasoline, liquor, truck parts, inner tubes and tires, and lubricating oils simply do not have the seasonal factor in their businesses as do producers of fishing tackle. Also, it should be noted, the fishing tackle excise taxes collected are earmarked for the Dingell-Johnson Fund and are not part of the general revenues.

We believe the tackle industry can grow and prosper if this relief is granted and that we can continue to offer secure year-round employment to thousands of persons throughout the country. Without the relief, we believe that a number of companies are likely to close their doors each year. In the case of my company, the "tax on a tax" we pay each year approximates $100,000 -- because of the interest on funds borrowed to pay income taxes. We've had some years in which it has been difficult to achieve that much in net profit!

Thank you for your interest in resolving this issue and I will be pleased to respond to any questions you might have.

Summary
of
Principal Points
Contained in
Prepared Statement
by
Paul A. Mulready
Johnson Fishing, Inc.

* * *

1. Established trade practices call for future orders to be booked in late summer and early fall, for shipments to take place during October - March, but, generally, for payments from customers not to be received until April - June.
2. These credit terms assist manufacturers in leveling out and sustaining employment throughout the year.
3. Without dating, sales would be lost and, consequently, D-J excise tax collections reduced.
4. Tackle manufacturers support the Dingell-Johnson Program and appreciate the resource-oriented programs that are funded by this excise tax.
5. The Department of Treasury has increased the collection time for funding tackle excise taxes causing manufacturers to pay a "tax on a tax" because of the interest rates that must be paid for short-term financing.
6. The fishing tackle industry is unique when compared with other industries that are required to pay excise taxes.
7. The fishing tackle industry, in order to grow and prosper, needs the relief sought by S. 710.

Senator DURENBERGER. Thank you very much.
Mr. Howard.

STATEMENT OF GENE HOWARD, VICE PRESIDENT, PLANNING AND ADMINISTRATION, ZEBCO, TULSA, OKLA.

Mr. HOWARD. Thank you, Mr. Chairman. My name is Gene Howard. I am the vice president of Zebco, a Tulsa-based fishing tackle company, and I would like to emphasize the fact that Zebco back in 1952 was one of the original sponsors of this legislation and we have not changed our minds since that time.

We have always supported the tax because we believe it important to the development of the sport fishing industry here in the United States. But the thing that has changed since the tax was first introduced in 1952, as Paul just mentioned, is the fact that the calendarization of sales has changed and the primary reason for that calendarization has been the offering of dating or terms in the industry and during that time we have to remit the tax on even an accelerated basis.

I would like to say that really our company was built, the primary reason I think our sales have increased over the years is the fact that we have offered terms in this off-season time of the year. It has been very good for Zebco and, we think, also for the industry.

I would like to spend the rest of my time commenting on Treasury's opposition in the past. We believe really it is the same this year, and that is the effect of revenue on the Treasury. They merely act as a collection agency and during the year they collect these funds, which are submitted on a semimonthly basis, no interest is paid back to the States on it, but really the effect on Treasury is minimal.

In the previous administration they said this would cost the U.S. Treasury something like over $1 million of additional borrowings to replace the revenues that come in as it currently has to be paid. That created quite a stir in the local papers when we introduced the bill that Zebco wants some kind of special interest legislation. This is not so because if it becomes expense to the Treasury, it would become income to the manufacturer and we do not have to pay interest.

I assure you that we cannot borrow money at Treasury bill rates, and in my prepared statement, on page 5, I show the computation of the effect on Treasury by anything that is expensed to them at Treasury bill rates becomes income to us at prime rate plus 2. The Treasury gets back half of that in additional taxes anyway. So the effect on Treasury, their position in the past has always been that it affects revenue and we do not believe this is the case and we believe we have made a good point on that. It was never intended anyway, I do not believe, at least when we were proponents of the bill in the early 1950's, that the revenue deposited from this very small sport fishing industry was intended to fund the U.S. Treasury for any period of time or in any amounts.

I would like to comment also on the excise tax collections during the past few years. In the previous administration the Treasury Department estimated in 1981 they were going to collect about $38.9

million in taxes. We actually only received in 1981 for the fiscal year $31,900,000 and there has to be a reason for that because we believe very much so that the industry was up during this period of time.

I think what is happening—what may be happening—is that this is such an unfair tax on behalf of these small manufacturers, particularly, that they just do not pay it or they wait until they do have the money to pay it. So it has created a real situation. In the fiscal year or an approximate tax year basis, the excise tax collections in 1981 were down 14.1 percent and during that same period of time we believe the industry to be up at least 5 to 10 percent just on price alone. So that is a very important point. I think it is one that somebody needs to look into on why the excise tax collections are down.

The fact that this is an industry-sponsored tax on a voluntary basis, designed to develop the indusry, I think makes it a very unique tax and it is not special interest or a precedent for any other excise tax interest. In fact, I think the only precedent that we could see established here is this would be the last time we ever volunteered to pay a tax on anything.

Senator DURENBERGER. Thank you for your testimony. I am just going to ask any one of the three of you to elaborate on two points. One, just so that the record is complete, elaborate on Dingell-Johnson and where the moneys are going—for what purpose, who is responsible for making the decisions, and who benefits in the general sense.

And then, second, Tom raised the inadequacy of enforcement issue, I believe, in his statement and, Bob, you have elaborated on that. I think if we can either here in the record or in some other fashion quantify the effects of that change as you did with the 38.6 and the 31, I think everything you say is so logical that I do not know why anyone other than an IRS agent would disagree with it.

Mr. HOWARD. Senator, could I introduce exhibit A which is an analysis of the excise tax collections for the last 10 years and also a tax year basis, which is the basis——

Senator DURENBERGER. You suggest that as being responsive to my last question?

Mr. HOWARD. Yes, sir.

Senator DURENBERGER. It will be made a part of the record.

[The information referred to follows:]

Exhibit A

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ZEBCO
ANALYSIS OF EXCISE TAX COLLECTIONS
PERIODS INDICATED
($000)

FISCAL YEAR	QUARTER 1st	2nd	3rd	4th	Total
1972	1,840	3,000	4,760	4,280	13,880
1973	2,160	2,950	6,150	4,620	15,880
1974	3,190	3,980	6,470	5,980	19,620
1975	4,430	4,820	6,670	5,490	21,410
1976	3,090	4,580	6,990	7,430	22,090
1977	3,680	5,610	9,190	6,940	25,420
1978	3,940	6,370	7,490	10,560	28,360
1979	5,030	6,290	8,640	10,450	30,410
1980	5,260	6,720	13,260	8,400	33,640
1981	3,600	7,650	11,020	9,670	31,940

Source: Internal Revenue Service News Releases

PROJECTIONS BY FISH & WILDLIFE SERVICE (D-J FEDERAL AID)

1982 - 39.0
1983 - 42.9
1984 - 47.1
1985 - 51.8
1986 - 57.0

APPROXIMATE TACKLE YEAR BASIS (A)

		% Inc(Dec)
1973	15,540	
1974	18,260	17.5
1975	21,900	19.9
1976	20,150	(8.0)
1977	25,910	28.6
1978	24,740	(4.6)
1979	30,520	23.4
1980	35,690	16.9
1981	30,670	(14.1)

(A) July 1 - June 30. Assumes immaterial changes for month of July.

Senator **Durenberger**. Will one of you provide us with a little bit on Dingell-Johnson?

Mr. **Schedler**. Well, the Dingell-Johnson program is essentially designed to provide funds, moneys, back to the States to enable them to properly manage and enhance the fishery resources in their respective States. It is done on a matching basis with 75 percent D–J moneys and 25 percent State funds going back to the State programs.

Decisions on programs to be funded by the individual States are made, I think, in combination with the Department of the Interior. So it is a joint decision as to what projects should be undertaken and which programs should receive D–J funding.

I might add that in conversations that we have had with the Interior Department on this particular issue, they also are very supportive of the need for the manufacturers to gain the sought-after relief as is called for in S. 710.

So in response to your question, it is a joint venture in terms of who calls the shots and what projects are funded and the moneys are on a 3-to-1 matching basis to the States.

Senator **Durenberger**. For some reason or other, in the last month or so anytime in this context that someone mentioned the Department of the Interior I get cold shivers up and down my back and I am prompted to ask the question as to whether or not there have been any efforts made to slow up the appropriation or allocation of D–J funds to the States either in fiscal 1982 or fiscal 1983.

Have there been any problems in that regard?

Mr. **Mulready**. No, I think not, Senator. I guess one other point with respect to D–J that makes us again unique and different from other industries is that those are earmarked funds. Those excise taxes go into Dingell-Johnson and the funds collected by the excise tax in 1 year are disbursed in the following Government fiscal year. So they are really a depository or, you know, a temporary holding place for those funds, really unlike other industries where the excise tax has become part of the general revenues. Our money is earmarked and the tax is supported by our industry.

Mr. **Schedler**. Senator, if I might just comment, one point further or your second question having to do with enforcement——

Senator **Durenberger**. Yes.

Mr. **Schedler**. Our association believes very strongly that since the tax is in existence and supported by the industry, that all manufacturers of products that are covered by the tax should abide by the regulations. We are aware of the fact that there are some, for whatever reason—either through being unaware of the program itself or because of financial stress—are not paying any or their proper portion of the tax.

AFTMA went so far as to discuss this problem with Treasury, the Internal Revenue Service, and asked them if they could not assist the industry by stepping up their enforcement procedures. In essence, the reply that we received from Treasury was that they just did not have the manpower to do the job and it would be extremely difficult for them to do much more than they are currently doing.

Senator **Durenberger**. So let's speed up the collection from those who are good citizens and willing to pay. Were you going to make a last comment?

Mr. **Howard**. I have one other comment, Senator. This is sometimes referred to as Federal aid, the 75 percent. We object to that. It is not Federal aid. It is an industry-sponsored volunteer contribution to the restoration of fishing programs throughout America and this program has contributed more than $400 million toward that since it was enacted and very, very important to the development of the sport fishing industry in the United States.

Senator **Durenberger**. Thank you, gentlemen, very much for coming in today and presenting us this very logical explanation for this excellent piece of legislation that Dave and I have introduced, and we thank you again very much.

Mr. **Mulready**. Thank you, Senator.

Senator **Durenberger**. The last bill on our hearing agenda today is S. 1854. S. 1854 would make the present tax exempt scholarship treatment provided for certain National Research Service Awards permanent for any National Research Service Awards made after December 31, 1983. Our witness is Dr. Virginia Weldon, associate chancellor, Washington University School of Medicine, St. Louis, Mo., on behalf of the Asssociation of American Universities, the American Council on Education, the National Association of Independent Colleges & Universities, the National Association of State Universities & Land-Grant Colleges, and the Association of American Medical Colleges in Washington, D.C., and all of those people have written me on the bill.

I thank you for being here.

[The prepared statement of Gene Howard follows:]

STATEMENT OF

GENE HOWARD
VICE PRESIDENT
ZEBCO, A BRUNSWICK COMPANY

MR. CHAIRMAN: MY NAME IS GENE HOWARD AND I AM VICE PRESIDENT OF ZEBCO, A FISHING TACKLE COMPANY LOCATED IN TULSA, OKLAHOMA.

ZEBCO HAS ALWAYS SUPPORTED THE VOLUNTARY TAX OF SPORTFISHING ITEMS TO FUND A FISH RESTORATION PROGRAM

ZEBCO IS ONE OF THE COMPANIES WHICH INITIALLY SUPPORTED THE IMPOSITION OF AN EXCISE TAX ON OUR PRODUCTS IN 1952 AND HAS NEVER CHANGED ITS POSITION. THE COMPANY HAS ALWAYS RECOGNIZED THAT A DEVELOPMENT PROGRAM TO PROMOTE THE SPORTFISHING INDUSTRY WAS IN ITS BEST LONG-TERM INTEREST. IT IS MORE IMPORTANT NOW THAN EVER BEFORE TO ATTRACT NEW PARTICIPANTS AND TO RETAIN THE OLD PARTICIPANTS. PERHAPS THE MOST CRITICAL LONG-RANGE ISSUE FACING THE SPORTFISHING INDUSTRY IS THE DEGREE OF SUCCESS THAT A PARTICIPANT HAS WHEN HE GOES FISHING. A REASONABLE CHANCE OF CATCHING FISH IS INCREASED IF THERE ARE MORE LAKES AND, MOST IMPORTANT, MORE FISH IN THOSE LAKES. WITH THE RAPID INCREASE IN POPULATION GROWTH OVER THE PAST 25 YEARS, IT IS EVEN MORE IMPORTANT TODAY THAT THE RESTORATION PROGRAMS FUNDED FROM THE SALE OF OUR OWN PRODUCTS AND TAXED ON OUR OWN INITIATIVE BE MAINTAINED AND INCREASED.

FISH RESTORATION PROGRAMS ARE DEPENDENT ON THE GROWTH OF THE SPORTFISHING INDUSTRY

ONE OF THE WAYS TO INCREASE THE AVAILABILITY OF DINGELL-JOHNSON FUNDS IS FOR MANUFACTURERS TO INCREASE THEIR SALES. HISTORICALLY, THE FISHING TACKLE YEAR BEGINS ON AUGUST 1, WITH NEW PRODUCTS, PRICES AND PROGRAMS, AND ENDS ON THE FOLLOWING JULY 31. IN 1952, WHEN THE LEGISLATION AND RELATED TIMING OF EXCISE TAX PAYMENTS WAS ENACTED, ZEBCO GENERATED 20% OF ITS ANNUAL VOLUME FROM AUGUST 1 THRU DECEMBER 31.

MARKETING TACTICS DESIGNED TO GET THE PRODUCTS ON CUSTOMERS' SHELVES AHEAD OF THE NORMAL SELLING SEASON (JANUARY-MAY) RESULTED IN THE PRACTICE OF OFFERING AN EXTENDED PERIOD OF TIME FOR PAYMENT IF THE CUSTOMER WOULD ACCEPT DELIVERY AHEAD OF THE NORMAL SHIPPING PERIOD. KNOWN IN THE INDUSTRY AS "DATING" OR "TERMS", THIS TACTIC MET WITH ENOUGH SUCCESS SO THAT BY 1960 ABOUT 30% OF ZEBCO'S SALES WERE FROM AUGUST THRU DECEMBER. IT WAS ABOUT THIS PERIOD OF TIME THAT THE JAPANESE BEGAN TO MAKE SOME INROADS IN THE UNITED STATES MARKET. IN 1961, TO BLOCK THE CHEAP IMPORTS, ZEBCO INTRODUCED AN INEXPENSIVE REEL IDENTIFIED AS THE MODEL 202 AND USED THIS REEL IN A FREE GOODS PROGRAM THAT REQUIRED ORDERS TO BE SHIPPED NO LATER THAN NOVEMBER 30 IN ORDER TO QUALIFY FOR MAXIMUM DISCOUNTS AS WELL AS DATING. BY 1965, OVER 35% OF SALES WERE GENERATED IN THE AUGUST THRU DECEMBER PERIOD, INCREASING TO OVER 40% IN RECENT YEARS AND SOLD UNDER SOME FORM OF DATING. IT IS OUR OPINION THAT THIS PATTERN IS FAIRLY REPRESENTATIVE OF THE SPORTFISHING INDUSTRY. ZEBCO NOT ONLY TAUGHT AMERICA HOW TO FISH, IT ALSO TAUGHT AMERICA HOW TO SELL.

THE CALENDARIZATION OF SALES HAS CHANGED AS A RESULT OF DATING PROGRAMS

ALL THIS TO SAY THAT OVER THE YEARS SINCE THE EXCISE TAX LEGISLATION WAS ENACTED, THE CALENDARIZATION OF SALES HAS CHANGED AS A RESULT OF PROGRAMS AND PROMOTIONS WHICH, IN TURN, HAS RESULTED IN INCREASED SALES. OUR EXPERIENCE HAS BEEN THAT IF THE PRODUCTS CAN BE PLACED IN THE HANDS OF THE CUSTOMER, HE WILL FIND A WAY TO MOVE THEM AHEAD OF THE NORMAL SELLING SEASON ALSO.

DATING IS SOMETIMES MORE IMPORTANT THAN PRICE

OVER 50% OF THE SPORTFISHING INDUSTRY SALES WERE TO WHOLESALERS OR JOBBERS WHO, IN TURN, MUST OFFER DATING TO THEIR RETAIL CUSTOMERS. THIS TYPE OF OUTLET HISTORICALLY HAS BEEN UNDERCAPITALIZED AND MUST RECEIVE THEIR MONEY BEFORE THEY CAN PAY US. THIS IS AN ADDITIONAL REASON WHY DATING IS SO PREVALENT IN THE INDUSTRY.

THE ACCEPTANCE OF SALES TERMS AFFECTS INVESTMENTS AND PEOPLE

WHILE THE PRIMARY MOTIVE IN OFFERING DATING IS TO INCREASE SALES AND RELATED PROFITS, AN IMPORTANT BENEFIT IS THE LEVELING OF PRODUCTION TO MAKE MAXIMUM USAGE OF THE PHYSICAL FACILITIES. THE SAME ANNUAL VOLUME CAN BE OBTAINED FROM LESS INVESTMENT IN PROPERTY, PLANT AND EQUIPMENT IF PRODUCTION IS RELATIVELY EVEN FROM MONTH-TO-MONTH RATHER THAN PRODUCING AT AN ACCELERATED PACE FOR A FEW MONTHS OF THE YEAR.

THE SAME BENEFIT TO PROPERTY, PLANT AND EQUIPMENT FROM LEVELING OF PRODUCTION IS ALSO RELATED TO THE FINANCIAL COSTS OF BUILDING INVENTORY AHEAD TO MEET PEAK SHIPPING PERIODS AND TRUST THAT THE DEMAND WILL STILL BE THERE AT THE SEASONAL PEAKS. HOWEVER, THE GREATEST BENEFIT OF MORE LEVEL PRODUCTION IS TO OUR PRODUCTION WORKERS. A STABILIZED WORK FORCE IS NOT ONLY MORE PROFITABLE TO THE COMPANY BUT IS EQUALLY MORE DESIRABLE FROM OUR WORKERS' STANDPOINT.

EFFECT ON THE U.S. TREASURY

SENATOR DURENBERGER IN HIS REMARKS TO THE SENATE WHEN HE INTRODUCED THE BILL STATES THE EFFECT ON TREASURY AND THE POSITION OF THE INDUSTRY AS WELL.

"The Government will lose only minimal interest income on this proposal, but it is much more equitable to those who voluntarily pay this tax to to move toward regulatory reform. In fact, the Regulatory Flexibility Act directs us to find ways to reduce Government regulation of small business. This is a classic case where we can apply that principle. The alternative is to watch the economic burden mount on these small business people, their employees and then on the thousands of bait and tackle shops served by this industry. I urge you to join me in supporting this measure."

Since the U.S. Treasury acts as a collection agency, it is granted that they would be denied use of the funds for the period of the deferral. However, it was never the intent for the cash flow from voluntary, self-imposed excise taxes on this small fishing tackle industry to fund the Treasury for any period of time.

On September 30, 1980, Donald Lubick wrote to Congressman Jim Jones a letter stating that this legislation would cost the U.S. Treasury one million dollars per year for interest on additional borrowings. Mr. Lubick documented only part of the facts, (not unusual). In his letter, he based his computation on an estimate of collections of $38.9 million for the fiscal year 1981. The amount of excise tax collections for 1981 on fishing reels, rods, etc., is reported at $31.9 million. A margin of error of 18%, (again, not too unusual). Therefore, Mr. Lubick's position should have been an effect of $820,000 on Treasury.

The other side of the story is that if it costs Treasury $820,000 at Treasury bill rates, the fishing tackle manufacturers are borrowing at least at 150% of those rates, (probably closer to 200% for most of the industry).

USING TREASURY'S OWN ANALYSIS, INTEREST EXPENSE TO THE TREASURY WOULD BECOME INCOME TO THE FISHING TACKLE MANUFACTURERS BUT AT 150% OF THE AMOUNT IN QUESTION. THEREFORE, MR. LUBICK SHOULD HAVE OFFSET THE $820,000 ADDITIONAL INCOME TAXES COLLECTED ON A QUARTERLY BASIS FROM THE FISHING TACKLE MANUFACTURERS FROM INCREASED PROFITS OF $1,230,000, (PROBABLY CLOSER TO $1.6 MILLION).

COMPUTATION (INCOME (EXPENSE))

	TREASURY	MANUFACTURER
EFFECT OF THIS BILL	($820,000)	$1,230,000
INCOME TAXES (50%)	615,000	(615,000)
	$205,000	$ 615,000

AT THE WRITING OF THIS TESTIMONY, WE HAVE BEEN UNABLE TO DETERMINE THE POSITION OF THE CURRENT TREASURY DEPARTMENT AS IT RELATES TO LOSS OF REVENUE. ANOTHER IMPORTANT POINT IS THE DEFLATIONARY EFFECT ON FISHING TACKLE ITEMS IF THIS BILL WERE PASSED. PRICES COULD BE MAINTAINED, WHEREAS THE PRESENT SYSTEM IS INFLATIONARY AND REQUIRES THE FISHING TACKLE MANUFACTURERS TO BORROW THE MONEY TO PAY THE TAX BEFORE COLLECTION FOR THE SALE IS MADE. THESE COSTS FIND THEIR WAY INTO THE SELLING PRICE OF THE PRODUCTS AND ARE MARKED UP THROUGHOUT THE DISTRIBUTION SYSTEM.

SUMMARY

THE METHOD OF SELLING AND THE SUBSEQUENT COLLECTION OF RECEIVABLES HAS CHANGED SINCE THE INDUSTRY VOLUNTARILY IMPOSED AN EXCISE TAX ON ITS PRODUCTS. THE TIMING FOR REMITTANCE OF THE TAX HAS EVEN BEEN INCREASED. THE PROVISIONS OF THE PROPOSED LEGISLATION WOULD ENABLE THE MANUFACTURER OR IMPORTER TO MORE CLOSELY MATCH THE PAYMENT OF THE TAX WITH THE COLLECTION FOR THE SALE WHICH WAS THE INTENT IN 1952. THEREFORE, THE PROPOSED LEGISLATION SHOULD NOT BE CONSIDERED SPECIAL INTEREST OR A PRECEDENT FOR ANY OTHER EXCISE TAX INTERESTS.

STATEMENT OF VIRGINIA V. WELDON, M.D., ASSOCIATE VICE CHANCELLOR, WASHINGTON UNIVERSITY SCHOOL OF MEDICINE, ST. LOUIS, MO., ON BEHALF OF THE ASSOCIATION OF AMERICAN UNIVERSITIES, THE AMERICAN COUNCIL ON EDUCATION, THE NATIONAL ASSOCIATION OF INDEPENDENT COLLEGES & UNIVERSITIES, THE NATIONAL ASSOCIATION OF STATE UNIVERSITIES & LAND-GRANT COLLEGES, AND THE ASSOCIATION OF AMERICAN MEDICAL COLLEGES, WASHINGTON, D.C.

Dr. **WELDON**. Mr. Chairman, thank you very much. I am Dr. Virginia Weldon from Washington University in St. Louis and the organizations which I represent here today are very grateful for this opportunity to address S. 1854, a bill to permanently define national research service awards as scholarships or fellowships for tax purposes.

The organizations, on behalf of their constituents, enthusiastically endorse the objective of this proposal as equitable, as consonant with tradition and as a positive incentive to attract creative aspirant scientists to careers in biomedical and behavioral research.

National research service awards, or NRSA's, created in 1974 by Public Law 93-348, are the device through which the U.S. Public Health Service supports the pre- and post-doctoral training of biomedical and behavioral scientists. In the late 1960's and the early 1970's, OMB's reluctance to support research training moved the Congress to revise the then existing training authorities and to provide specific authorization ceilings for them.

The resulting bill included a service payback condition, presumably to make it less susceptible to Presidential disapproval and more acceptable to the public at large. However, the new awards program maintained the continuity of research training in a form identical to that in which it had existed for over 30 years.

To the surprise and consternation of the academic biomedical and behavioral research community, the Internal Revenue Service ruled in 1977 that the service payback constituted a quid pro quo and that it thus destroyed the traditional scholarship character of the award. In 1978, enactment of section 161(b) of the Revenue Act delayed the application of this IRS ruling through a moratorium that expired at the end of calendar year 1981.

Consequently, the 1977 IRS ruling that mandates full taxation of the awards has gone into effect, Revenue ruling 77-319. The associations have recently made another formal request that IRS reconsider that ruling, arguing principally on the ruling's strongous interpretation of facts, but also on changes in the payback requirement effected by the Omnibus Reconciliation Act of 1981. However, there is no assurance that IRS will reverse its current opinion. Therefore, S. 1854 is most welcome as a potential permanent legislative relief.

The 1977 IRS ruling relied on two lines of argument to justify denying scholarship or fellowship tax status to NRSA's—the statutory service payback requirement and the Government's reservation, in regulations, of royalty-free use of copyrighted material. The ruling concluded that, in combination, these factors comprised a substantial quid pro quo and, therefore, that the awards are made primarily for the benefit of the grantor.

As argued in the ruling reversal request, and as repeatedly enunciated by congressional committees under whose aegis the programs fall, the service payback provision is not for the benefit of the U.S. Government. Rather, the requirement that award recipients teach or perform research is simply to assure that recipients devote at least a specified period of time to the careers for which they are trained.

Neither the Government nor the institutional grantor has any ability to determine the particular employer or area of endeavor after the training period. The benefit received by the Government, as fiduciary of the national interest, is only the prospect of better educated individuals committed to working in the fields in which they were trained.

The IRS argument, that the Government's reservation of royalty-free use of any copyrighted material produced as a result of research performed during the award period is a quid pro quo, is not weighty. The right to royalty-free use of such copyrighted material has never been exercised.

Thus, neither putative benefit to the Government is of any practical value or significance, and the claim that the awards are made primarily for the benefit of the grantor is untenable.

The other important dimension of this issue is that taxation of NRSA's discourage individuals from entering research training and hence impedes fulfillment of the purpose of the awards. The situation is particularly critical with regard to the post-doctoral training of young physicians. Incentives are badly needed to help encourages individuals to enter biomedical research and forego the considerably greater financial rewards offered by medical practice.

Mr. Chairman, you have heard from the Treasury Department this morning that they now believe a reasonable argument can be made in support of treating NRSA's as excludable scholarships or fellowships. You have also heard from Dr. Merritt about the effectiveness and importance of the program.

This issue has been debated for over 5 years now. During that period of time we have had three temporary extensions. The continued uncertainty is becoming a significant disincentive to young scientists now. The time consumed by all parties concerned in this issue, which is relatively minor in terms of tax expenditure, is becoming unreasonable. We therefore urge you to pass S. 1854, resolving this problem once and for all.

I thank you very much and will be happy to answer any questions you might have.

Senator DURENBERGER. Thank you very much. Would you just again make clear, perhaps repetitively, for the record the issue of benefit to the universities and benefit to students and what is the fact relative to who receives the benefit of this legislation?

Dr. WELDON. The benefit of the legislation or the benefit of the program?

Senator DURENBERGER. Well, the benefit of the program.

Dr. WELDON. Well, the IRS ruling has been based on the fact that the service requirement created a quid pro quo and that the benefit, therefore, was for the grantor. The benefit derived to the Government rather than to the individual or the public at large, and we believe that we have made a significant case and apparently Treasury feels the same since this morning they have, in effect, reversed a previous stand that they have taken and have said that they now believe that we can make a good case for this being excludable.

The primary beneficiaries of the program really, then, are the individual recipients whose education and training are furthered and certainly not the institutions, because the institutions have no control over where the individual will go after the training period.

Senator **Durenberger**. OK. Any other comments you would like to make in your 5 minutes?

Dr. **Weldon**. We think that the amount of time that has been spent on this issue in proportion to the tax expenditure involved is becoming almost ludicrous. We are very appreciative of your efforts to resolve it once and for all.

Senator **Durenberger**. Great. I have just written out while you were testifying my argument about how this can logically fit in a tax bill that is not supposed to make new policy and I appreciate very much your taking the time to be here today and all of that extra effort that you have to keep putting into this issue. We are grateful to you.

Dr. **Weldon**. Thank you very much.

[The prepared statement of Virginia V. Weldon, M.D., follows:]

Statement of the
Association of American Medical Colleges,
the Association of American Universities,
the American Council on Education,
the National Association of Independent Colleges
and Universities and
the National Association of State Universities and
Land Grant Colleges
on
S.1854
(a bill to permanently define National Research
Service Awards as scholarships for tax purposes)

The Association of American Medical Colleges, the Association of American Universities, the American Council on Education, the National Association of Independent Colleges and Universities and the National Association of State Universities and Land Grant Colleges are grateful for this opportunity to address S.1854, a bill to permanently define National Research Service Awards as scholarships or fellowships for tax purposes. These organizations, on behalf of their constituents, enthusiastically endorse the objective of this proposal, as equitable, as consonant with tradition and as a positive incentive to attract creative aspirant scientists to careers in biomedical and behavioral research.

Submitted by the AAMC, AAU, ACE, NAICU, and NASULGC to the Senate Finance Subcommittee on Taxation and Debt Management, May 7, 1982.

National Research Service Awards (NRSAs), created in 1974 by P.L. 93-348, are the current device through which the U.S. Public Health Service (PHS), especially the National Institutes of Health (NIH) and the Alcohol, Drug Abuse and Mental Health Administration (ADAMHA), supports the pre- and postdoctoral training of biomedical and behavioral scientists. These programs were first authorized in 1930 under P.L. 71-251, The Ransdell Act, and were conducted under authority in Section 301 of the Public Health Act from 1944 until 1974. Throughout this long period, the awards were always deemed, for purposes of taxation, as scholarships.

In the late 1960's and the early 1970's, the Executive Branch developed a strong mind set against support for research training, reflected in reduced requests for appropriations. The Congress responded by revising training authorities and providing specific authorization ceilings. The resulting bill included a service payback condition, presumably to make it less susceptible to Presidential disapproval, more acceptable to the public at large, and compatible with the terms and conditions of support in new legislation for the education of health professionals. Specifically, the payback requirement was seen as a means of preventing abuse of the research training program by individuals seeking subspecialty medical training. However, it must be emphasized that the NRSAs did not break the continuity of the concept of research training that had been in existence in essentially identical form for over 30 years.

To the surprise and consternation of the academic biomedical and behavioral research community, the Internal Revenue Service (IRS) ruled in 1977 that NRSAs are made primarily for the benefit of the grantor, a ruling that destroyed the scholarship character of the award. Enactment and later extensions of Section 161(b) of the Revenue Act of 1978 delayed the application of this ruling only through the end of calendar year 1981. Consequently, the 1977 IRS ruling that mandates full taxation of the awards has gone into effect (Rev. Rul. 77-319). The associations have recently made another formal request that IRS reconsider that ruling, arguing principally on the ruling's erroneous interpretation of facts, but also on changes in the payback requirement effected by the Omnibus Reconciliation Act of 1981. However, there is no assurance that IRS will reverse its current opinion. Therefore, S.1854 is most welcome as potential legislative relief.

The 1977 IRS ruling relied on two lines of argument to justify denying scholarship or fellowship tax status to NRSAs: the statutory service payback requirement and the government's reservation, in regulations, of royalty free use of copyrighted material. The ruling concluded that, in combination, these factors comprised a substantial *quid pro quo* and, therefore, that the awards are made primarily for the benefit of the grantor.

As argued in the ruling reversal request, (Attachment I), and as repeatedly enunciated by congressional committees under whose aegis the programs fall, the service payback provision is not for the benefit of the United States Government; rather, the requirement that award recipients teach or perform research is simply to assure that recipients devote at least a specified period of time to the careers for which they were trained. Neither the Government nor the institutional grantor has any ability to determine the particular employer or area of endeavor after the training period. The benefit received by the government, as fiduciary of the national interest, is only the prospect of better educated individuals, committed to working in the fields in which they were trained.

It should also be noted that the Omnibus Budget Reconciliation Act of 1981 substantially modified the service payback requirement. Thus, several of the facts on which Revenue Ruling 77-319 was based have changed. There is now no payback requirement associated with awards for prebaccalaureate training and no payback requirement associated with the first twelve months of postbaccalaureate training. Further, to the extent that the option for alternate service in areas considered equivalent to Federal employment previously permitted the inference that the Federal Government was in some circumstances to be the beneficiary of the grant, the Reconciliation Act removed the possible inference by removing the possibility of alternate service.

With regard to the government's reservation of royalty free use of any copyrighted material produced as a result of research performed during the award period, it should be noted that an examination of the actual facts discloses that this has never had any practical significance to the Government or the awardees.

The Public Health Service is not aware of any instance in which the right to royalty free use of such copyrighted material has been exercised. The causes are obvious. NRSA recipients are trainees, not engaged in independent research, but learning research skills. It is, therefore, highly unlikely that a recipient would ever own a copyright on work done pursuant to the award. Further, the copyright reservation does not extend to recipients of funds under the institutional training grant awards; it is therefore inapplicable to about 85 percent of the trainees.

Thus, neither putative benefit to the government---payback or copyright---is of any practical value or significance, and the claim that the awards are made primarily for the benefit of the grantor is untenable.

The other important dimension of this issue is that taxation of NRSAs discourages individuals from entering research training and hence impedes fulfillment of the purpose of the awards---the creation of a highly trained pool of biomedical research manpower to carry out the nation's research agenda. The scholarship provisions of the Internal Revenue Code (Section 117), under which NRSAs have traditionally been handled, provide for exemption of the entire amount of the award for predoctoral, or "degree candidates" and exemption of up to $300 a month (or $3,600 a year) for a total of three years for postdoctoral or "non-degree candidates".

Thus, with denial of the scholarship exclusion, predoctoral award recipients are subject to taxation on the full amount of the stipend, tuition and fees received that average $9,540 (Attachment II) and postdoctoral recipients have lost the $3,600 per year exemption. The tax rates on these amounts, are not insignificant to individuals trying to make ends meet on modest incomes during these inflationary times. Simultaneously, the resulting increase in Treasury receipts is miniscule. The Senate Finance Committee report on "The Tax Treatment Extension Act of 1980," the last extension of the Congressional moratorium on full taxation of NRSAs, estimated the revenue effect of the extension to be $1 million in FY 1982, $8 million in FY 1983, declining to $5 million in FY 1984. (S. Rept. 96-1007).

A true disincentive to enter research training has been created, if the scholarship status of NRSAs is not restored. Further, the prestige of the awards, conferred by that status, will be diminished.

The situation is particularly critical with regard to the postdoctoral training of young physicians. Over the past several years, it has become increasingly apparent that alarmingly few physicians are being attracted to research careers. Incentives are badly needed to help encourage individuals to enter biomedical research and forego the considerably greater financial rewards offered by private practice. Further, the level of postdoctoral stipends available through biomedical research training programs are significantly lower than even those that these individuals received as residents. A postdoctoral NRSA recipient with 5 years of residency training would have to take a $6,000 (or 26%) cut in stipend to enter research training. The mean salary of sixth year residents was $23,013 in 1981 while NRSA recipients with 5 years prior experience received $17,040 (Attachment III). Obviously, taxation of the totality of NRSA stipends would further discourage individuals from entering research training.

In conclusion, on the grounds of consistent interpretation of tax law and the need for research training incentives, the scholarship tax exemption is warranted for NRSA recipients. This issue has troubled the academic community for five years now. Awardees have not known from one year to the next what their tax obligation, and thus their net income, would be---a situation that has inhibited their ability to budget limited financial resources. Further, the problem has consumed a considerable amount of effort and energy on the parts of the academic community, the Congress and the IRS. The time for a permanent solution is long overdue. S.1854 affords that opportunity. The associations urge the Congress to take advantage of it.

(Attachments I, II and III are in official Committee files.)

Senator **Durenberger**. Thank you. The hearing is adjourned.

[Whereupon, at 10:52 a.m., the subcommittee adjourned.]

[By direction of the chairman, the following communications were made a part of the hearing record:]

The American Legion

★ WASHINGTON OFFICE ★ 1608 "K" STREET, N.W. ★ WASHINGTON, D.C. 20006 ★
(202) 861-2700 ★

For God and Country

April 26, 1982

Honorable Bob Packwood, Chairman
Senate Finance Subcommittee on
Taxation & Debt Management
2227 Dirksen Senate Office Building
Washington, D.C. 20510

Dear Chairman Packwood:

The American Legion would like to take this opportunity to commend you on the hearing of April 23, concerning various tax measures. Included among those measures before the Subcommittee was S. 473, the volunteer mileage bill introduced by Senator Durenberger.

During its entire history, the members of The American Legion have chosen to unselfishly give of themselves not only in defense of their nation but in support of their nation's needs. Providing more than 7.8 million hours of volunteer service to both the community and the VA hospitals in 1981 alone, the Legion and Legion Auxiliary view the current mileage deduction as unreasonable, prohibitive and counterproductive.

The time of inexpensive transportation and energy have fallen by the wayside. Volunteers, all to often, are enthusiastically willing to provide their services for those less fortunate or in greater need than themselves, however, their own strict budgetary constraints prohibit the expenditure of family funds for service to others.

Recognizing the situation of these individuals and the increasing need for volunteer services, The American Legion has adopted resolution #28 (copy enclosed), addressing the issue of voluntarism. It is the opinion of this organization that S. 473 and similar House legislation, H.R. 768 take positive steps to provide a nominal reward for those who have provided such a wealth of service for others.

We urge the Subcommittee's swift consideration of this legislation in the interest of maintaining and increasing volunteer activities. It is further requested that this letter and attached resolution be made part of the printed record of the April 23 hearing.

As always, your consideration of the requests of The American Legion is greatly appreciated.

Sincerely,

E. Philip Riggin, Director
National Legislative Commission

Enclosure

NATIONAL EXECUTIVE COMMITTEE MEETING
THE AMERICAN LEGION - INDIANAPOLIS, INDIANA
OCTOBER 14-15, 1981

RESOLUTION NO. 28

COMMITTEE: INTERNAL AFFAIRS

SUBJECT: VOLUNTARISM

WHEREAS, The American Legion is among the nation's leaders in providing volunteer services; and

WHEREAS, The great volunteer efforts of The American Legion have touched the hearts and lives of untold millions throughout the world; and

WHEREAS, The President of the United States has declared that the nation's economic recovery depends heavily upon reduced federal spending and that the nation's citizenry must engage in volunteer activity to replace previous federally-funded services; and

WHEREAS, The American Legion, as a leader among volunteers, can have a significant impact on a national campaign to promote voluntarism; and

WHEREAS, The federal government is capable of promoting the voluntarism spirit by defraying the expenses of volunteer activity through tax incentives and the removal of restrictions on fund raising for charitable purposes; now, therefore, be it

RESOLVED, By the National Executive Committee of The American Legion in regular meeting assembled in Indianapolis, Indiana, on October 14-15, 1981, That The American Legion be on record in support of government efforts to promote voluntarism; and, be it further

RESOLVED, That The American Legion National Organization make recommendations and support government efforts to create incentives to encourage voluntarism.

1982 MAY 17 AM 9 ...

American Psychiatric Association
1700 Eighteenth Street, N.W., Washington, D.C. 20009 • Telephone: (202) 797-4900

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Deputy Medical Director

May 3, 1982

Honorable Robert Packwood
Chairman
Subcommittee on Taxation & Debt
Management
Senate Committee on Finance
2227 Dirksen Senate Office Bldg.
Washington, D.C. 20510

Dear Senator Packwood:

The American Psychiatric Association, a medical specialty society representing over 26,000 psychiatrists nationwide, strongly supports the provisions of S. 1854 -- a bill to make permanent the exclusion from gross income of funds received pursuant to the National Research Service Awards -- introduced by Senator Durenberger and cosponsored by Senators Baucus, Hatch, Bradley, Heinz, and Danforth.

We believe the statements which Senator Durenberger and other co-sponsors (many of whom are your colleagues on the Senate Finance Committee) made when the bill was introduced in November, accurately and clearly set forth the background, need and benefits of the proposed legislation. We further believe the legislation is critical since the proposed NRSA changes will encourage increased numbers of young physicians to enter into training for careers in biomedical, behavioral and clinical research. This is an area of continuing need, particularly in light of the striking advances in new knowledge -- medical breakthroughs -- during the past decade, and the high promise they hold in the 1980s and beyond for further significant research gains in improved treatment and prevention of major illnesses -- including the most severe forms of mental illness.

We feel that enactment of S. 1854 would be a prudent investment in the nation's future, urge its adoption, and hope you will make this letter part of the hearing record.

Sincerely,

Melvin Sabshin

Melvin Sabshin, M.D.
Medical Director

MS:tf

VOLUNTEER
The National Center for Citizen Involvement

April 22, 1982

Mr. Robert Lighthizer
Senate Finance Committee
2227 Dirksen Senate Office
  Building
Washington, D. C. 20510

Dear Mr. Lighthizer:

VOLUNTEER: The National Center for Citizen Involvement would like to be included in the record of the hearings to be held April 23 on S 473 as being in support of the bill.

This is an important piece of legislation for the volunteer community, allowing drivers who use their automobiles for volunteer work to deduct an amount equal to that currently deducted by drivers who use their cars for business purposes.

Thank you for your attention to this matter.

Sincerely,

Kristine L. Rees
Staff Assistant
Program Services

1111 North Nineteenth Street - Suite 500 Arlington, Virginia 22209 (703) 276-0542
Boulder Office: P.O. Box 4179 Boulder, Colorado 80306 (303) 447-0492

The Junior League of St. Paul, Inc.
432 Summit Avenue
St. Paul, Minnesota 55102

APR 20 1982

April 19, 1982

Laura Lee M. Geraghty
Minnesota Office on Volunteer Services
127 University Avenue
St. Paul, Minnesota 55155

Dear Laura Lee,

I am writing in response to your request for informati from the Junior League of St. Paul concerning our position on voluntarism. The membership voted on April 13, 1982 to reaffirm this position statement on voluntarism: The Junior League of St. Paul, Inc. is committed to encouraging legislation and action which will enhance the status and well being of voluntarism.

The purpose of the Junior League is exclusively educational and charitable and is: to promote voluntaris to develop the potential of its members for voluntary participation in community affairs; and to demonstrate the effectiveness of trained volunteers.

Thank you for your testimony at the hearings on volunt mileage. If I can be of assistance, please call.

Sincerely,

Kay Knoll
Kay Knoll
Public Issues Chairman
777-1725

KK/mb
Encl.

MAVD
Minnesota Association of Volunteer Directors

April 21, 1982

Robert Lighthizer
Chief Counsel Senate Finance
  Committee
2227 Dirksen Senate Office
  Building
Washington, D.C. 20510

Dear Mr. Lighthizer:

As President of the Minnesota Association of Volunteer Directors I wish to take this opportunity to familiarize you with our position in support of Senator Dave Durenberger's Volunteer Mileage Deduction Bill (S.473). At each of the Annual Meetings of our professional organization over the past several years, we have unanimously supported resolutions to increase volunteer mileage deductions to the level allowable for business mileage deductions.

As administrators of volunteer programs, we feel strongly that Senate Bill 473 can serve as an incentive to encourage more citizen participation in both formal and informal volunteer endeavors within our state and throughout the nation. Increasingly the economic pressures which Americans are facing are unquestionably limiting the time and financial resources available to persons who would like to volunteer on behalf of their respective communities. Therefore we believe that this bill would serve to reduce some of the financial barriers that exist for a certain percentage of the population that wishes to make volunteer contributions.

A major theme in current volunteer endeavors is to respond to the increased need for services amid the current reductions of financial resources to provide these services. The Minnesota Office on Volunteer Services has initiated the "Volunteer for Minnesota" project designed to increase the effective utilization of volunteers in the delivery of services at the state, regional and local level. Incentives such as the Volunteer Mileage Deduction Bill can further enhance our ability to involve volunteers in planning, implementing and evaluating initiatives such as the "Volunteer for Minnesota" project.

Therefore we urge the Senate Committee on Finance and Debt Management to pass Senate Bill 473 in order to encourage maximum response to the call for volunteer efforts to improve the quality of services we can make available to American citizens.

Sincerely,

Nancy A. Jefferson

Nancy A. Jefferson
President
Minnesota Association of
  Volunteer Directors

United Way
of Minneapolis Area

404 South Eighth Street
Minneapolis, Minnesota 55404
Phone 612 340-7400

April 21, 1982

Hon. David F. Durenberger
United States Senate
353 Russell Senate Office Building
Washington, D. C. 20510

Subject: S. 473

Dear Senator Durenberger:

On behalf of the United Way, its Voluntary Action Center and its Government Relations Committee, we wish to express our support for your proposal to increase the volunteer mileage deduction. At a time when our country is expecting more from the voluntary sector and the many dedicated volunteers who assist in service delivery, the proposal which you have offered would be an important change in government policy. We believe that changing the mileage deduction allowed volunteers to more accurately reflect the actual cost incurred by these volunteers is appropriate.

Sincerely,

Arthur L. Cunningham

Art Cunningham, Chair
Voluntary Action Center Committee

Glen Skovholt

Glen Skovholt, Chair
Government Relations Committee

AC:GS:et

Thanks to you - it works for all of us

DESCRIPTION OF TAX BILLS

(S. 473, S. 474, S. 710, S. 1854, and S. 1923)

SCHEDULED FOR A HEARING

BEFORE THE

SUBCOMMITTEE ON TAXATION AND
DEBT MANAGEMENT

PREPARED FOR THE USE OF THE

COMMITTEE ON FINANCE

BY THE STAFF OF THE

JOINT COMMITTEE ON TAXATION

INTRODUCTION

The bills described in this pamphlet have been scheduled for a public hearing on April 23, 1982, by the Senate Finance Subcommittee on Taxation and Debt Management.

There are five bills scheduled for the hearing: (1) S. 473 (charitable expense deduction for use of personal vehicle); (2) S. 474 (medical expense deduction for use of personal vehicle); (3) S. 710 (postponement of time for paying excise tax on fishing equipment); (4) S. 1854 (exclusion from income of National Research Service Awards); and (5) S. 1923 (relating to annual accrual method of accounting).

The first part of the pamphlet is a summary of the bills. This is followed by a more detailed description of the bills, including present law, issues, explanation of provisions, effective dates, and estimated revenue effects.

I. SUMMARY

1. S. 473—Senator Durenberger, et al.

Charitable Expense Deduction for Use of Personal Vehicle

Under present law, individual taxpayers who itemize their deductions may deduct charitable contributions up to certain limits (sec. 170). In determining the amount of their charitable contribution deduction, taxpayers may deduct their actual expenses for gas and oil for an automobile used to provide services to a charitable organization, or may use a standard rate of 9 cents a mile.

Under the bill, taxpayers would be allowed to use the standard mileage rates that government employees use to determine reimbursement for use of their vehicles on government business (presently, 20 cents a mile for use of an automobile). The bill would apply after the date of enactment.

2. S. 474—Senator Durenberger

Medical Expense Deduction for Use of Personal Vehicle

Under present law, individual taxpayers who itemize their deductions may deduct the amount of their medical expenses which exceeds three percent of their adjusted gross income (sec. 213). Taxpayers may deduct as medical expenses their actual expenses for gas and oil for an automobile used for medical reasons, or may use a standard rate of 9 cents a mile.

Under the bill, taxpayers would be allowed to use the standard mileage rates that government employees use to determine reimbursement for use of their vehicles on government business (presently, 20 cents a mile for use of an automobile). The bill would apply after the date of enactment.

3. S. 710—Senators Durenberger, Boren, Chafee, Danforth, and Percy

Postponement of Time for Paying Excise Tax on Fishing Equipment

Present law imposes a 10-percent excise tax on the sale of fishing rods, creels, reels, and artificial lures, baits, and flies by the manufacturer, producer, or importer thereof (sec. 4161(a)). This tax generally is payable relatively soon after the fishing equipment is sold.

The bill would postpone the time for payment of the excise tax on fishing equipment until March 31, June 30, and September 24 for calendar quarters ending on December 31, March 31, and June 30, respectively. Tax for the quarter ending September 30 would be payable on a date prescribed by Treasury Department regulations.

The provisions of the bill would apply to articles sold in the first quarter beginning after the date of enactment of the bill and in all subsequent periods.

4. S. 1854—Se[illegible]tors Durenberger, Baucus, Hatch, Bradley, Heinz, and Danforth

Exclusion From Income of National Research Service Awards

Under present law, amounts received as scholarships and fellowship grants generally are excluded from gross income (sec. 117). However, if such grants constitute compensation for past, present, or future services for the grantor, they are not excludable, except in the case of certain Federal grants where the recipient agrees to perform future services as a Federal employee. In 1977, the Internal Revenue Service ruled that National Research Service Awards were compensation for services and not excludable as scholarships or fellowship grants.

The Revenue Act of 1978 provided that income from National Research Service Awards made through 1979 would be treated in the same manner as excludable scholarships or fellowship grants. This treatment was extended (in P.L. 96-167 and P.L. 96-541) to awards made through 1981.

This bill would make permanent the exclusion from gross income under the scholarship provisions for National Research Service Awards.

5. S. 1923—Senator Matsunaga

Allow Corporate Joint Ventures to Use Annual Accrual Method of Accounting for Corporations Engaged in Farming

Under present law, corporations (and partnerships with a corporate partner) engaged in the business of farming generally are required to use the accrual accounting method with capitalization of preproductive period expenses (sec. 447). However, certain corporations engaged in the growing of crops that are harvested at least 12 months after planting (such as sugarcane) are permitted to use the "annual" accrual method of accounting if they, or a predecessor corporation, have continuously used the annual accrual method generally since 1967. Under the annual accrual method, preproductive period expenses are not capitalized, but are deducted currently. The annual accrual method cannot be used by a partnership in which a corporation is a partner.

Under the bill, if a corporation that is allowed to use the annual accrual method for a farming business contributes the business to a "qualified partnership" in exchange for an interest in the partnership, the qualified partnership would be allowed to use the annual accrual method for that business. A qualified partnership would be a partnership of which each partner is a corporation other than a subchapter S corporation or a personal holding company. The provisions of the bill would apply to taxable years beginning after December 31, 1981.

II. DESCRIPTION OF THE BILLS

1. S. 473—Senator Durenberger, et al.*

Charitable Expense Deduction for Use of Personal Vehicle

Present law

Under present law (sec. 170(a)), individual taxpayers who itemize their deductions may deduct charitable contributions made to qualified organizations, subject to certain limitations.

Individuals who do not itemize deductions may also deduct charitable contributions, subject to limitations. For 1982 and 1983, the deduction is limited to 25 percent of the first $100 of contributions, or a maximum deduction of $25. For 1984, the contribution limit is raised to $300, or a maximum deduction of $75. For 1985, the deduction is allowed for 50 percent of contributions, with no dollar limit, and for 1986 the deduction is allowed for 100 percent of contributions (subject to the general limitations). This provision expires after 1986.

Under present law, taxpayers may deduct unreimbursed out-of-pocket expenses made incident to the rendition of services provided to a charitable organization, such as expenses for gas or oil for an automobile (Treas. Reg. § 1.170 A-1(g)). In determining the amount of the contribution deduction attributable to the operation of an automobile, taxpayers may deduct their actual expenses, or, for 1981, may use a standard rate of 9 cents a mile.[1] In either case, taxpayers may also deduct parking fees and tolls, but may not deduct general repair or maintenance expenses, depreciation, or insurance.

Issue

The issue is whether the standard mileage rate used to determine the amount of a taxpayer's charitable contribution deduction for the use of a motor vehicle should be the rate government employees are reimbursed for use of their vehicles on government business.

Explanation of the bill

Under the bill, taxpayers would determine the amount of their charitable contribution deduction for the use of a motor vehicle under the same mileage rate that government employees use to determine reimbursement for use of their vehicles on government business (presently, 20 cents a mile for the use of an automobile).[2]

Effective date

The provisions of the bill would apply with respect to the operation of a motor vehicle occurring after the date of the enactment of the bill, in taxable years ending after such date.

Revenue effect

It is estimated that the bill would reduce fiscal year budget receipts by $7 million in 1982, $55 million in 1983, $102 million in 1984, $115 million in 1985, and $135 million in 1986.

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*Cosponsors are Senators Kassebaum, Cranston, Boschwitz, Kasten, and DeConcini.

[1] This rate was determined by the Internal Revenue Service. Rev. Proc. 80-7, 1980-1 C.B. 590, as modified by Rev. Proc. 80-32, 1980-2 C.B. 767. The IRS, for 1981, allows a deduction of 20 cents a mile for the first 15,000 miles of a business use and 11 cents a mile for each additional mile.

[2] This rate was determined by the Government Services Administration pursuant to section 5704 of title 5, U.S. Code. 46 Fed. Reg. 58315 (Dec. 1, 1981).

2. S. 474—Senator Durenberger

Medical Expense Deduction for Use of Personal Vehicle

Present law

Under present law (sec. 213(a)), individual taxpayers who itemize their deductions may deduct the amount of their medical expenses which exceeds three percent of their adjusted gross income. Payments for transportation primarily for and essential to medical care qualify as medical expenses. Such transportation expenses include amounts paid for bus, taxi, train or plane, or for ambulance hire.

In determining the amount of transportation expenses which qualify as medical expenses, taxpayers may include amounts paid for out-of-pocket expenses for use of an automobile, such as gas and oil, or may use, for 1981, a standard rate of 9 cents a mile[1] for each mile an automobile is used for medical reasons. Parking fees and tolls may be included, but general repair and maintenance expenses, depreciation, and insurance may not be included.

Issue

The issue is whether the standard mileage rate used to determine the amount of the medical expense deduction for the use of a motor vehicle should be the rate government employees are reimbursed for use of their vehicles on government business.

Explanation of the bill

Under the bill, the amount of the medical expense deduction allowable for expenses for the use of a motor vehicle would be the same mileage rate that government employees use to determine reimbursement for use of their vehicles on government business (presently, 20 cents a mile for the use of an automobile).[2]

Effective date

The provisions of the bill would apply with respect to the operation of a motor vehicle occurring after the date of the enactment of the bill in taxable years ending after such date.

Revenue effect

It is estimated that the bill would reduce fiscal year budget receipts by $3 million in 1982, $22 million in 1983, $38 million in 1984, $41 million in 1985, and $46 million in 1986.

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[1] This rate was determined by the Internal Revenue Service. Rev. Proc. 80-7, 1980-1 C.B. 590, as modified by Rev. Proc. 80-32, 1980-2 C.B. 767. The IRS, for 1981, allows a deduction of 20 cents a mile for the first 15,000 miles of business use and 11 cents a mile for each additional mile.

[2] This rate was determined by the Government Services Administration pursuant to section 5704 of title 5, U.S. Code. 46 Fed. Reg. 58315 (Dec. 1, 1981).

3. S. 710—Senators Durenberger, Boren, Chafee, Danforth, and Percy

Postponement of Time for Paying Excise Tax on Fishing Equipment

Present law

Under present law, a 10-percent excise tax is imposed upon the sales price of fishing rods, creels, reels, and artificial lures, baits, and flies (including parts or accessories of such articles sold on or in connection therewith, or with the sale thereof) by the manufacturer, producer, or importer (sec. 4161(a)).

Treasury Department regulations require returns of manufacturers excise taxes, including the tax on the sale of fishing equipment, to be filed quarterly, unless the Internal Revenue Service requires more frequent filing by an individual taxpayer (Treas. Reg. § 48.6011(a)-1). Quarterly returns are due on the last day of the first month after the quarter ends (Treas. Reg. § 48.6071(a)-1).

Although returns generally are filed on a quarterly basis, the regulations require monthly, or semimonthly, payment of the tax in certain cases (Treas. Reg. § 48.6302(c)-1). If an individual is liable in any month for more than $100 of manufacturers excise tax and is not required to make semimonthly deposits, the individual must deposit the amount on or before the last day of the next month at an authorized depository or at the Federal Reserve Bank serving the area in which the individual is located.

If an individual had more than $2,000 in manufacturers excise tax liability for any month of a preceding calendar quarter, such taxes must be deposited for the following quarter (regardless of amount) on a semimonthly basis. The taxes must be deposited by the ninth day following the semimonthly period for which they are deposited. In addition, if the semimonthly period is in either of the first two months of the quarter, any underpayment of excise taxes for a month must be deposited by the ninth day of the second month following such month. Underpayments in the third month of the quarter must be deposited by the end of the following month.

No special rules are provided to defer payment of the excise tax with respect to sales of taxable articles on credit.

Issue

The issue is whether the time for payment of excise taxes imposed the sale of fishing equipment should be postponed.

Explanation of the bill

The bill would amend present law to require payment of the excise tax on fishing equipment on a quarterly basis, as follows:

(1) March 31, in the case of articles sold during the quarter ending the previous December 31;

(2) June 30, in the case of articles sold during the quarter ending the previous March 31;

(3) September 24, in the case of articles sold during the quarter ending the previous June 30; and

(4) On a date prescribed in Treasury Department regulations in the case of articles sold during the quarter ending September 30.

The bill would not change the present time for filing returns of manufacturers excise taxes or the time for payment of such taxes on articles other than fishing equipment.

Effective date

The provisions of the bill would apply to fishing equipment sold by manufacturers, producers, or importers on or after the first day of the first calendar quarter beginning after the date of enactment of the bill.

Revenue effect

The bill would not affect the aggregate fiscal year receipts of the manufacturers excise tax on fishing equipment.

4. S. 1854—Senators Durenberger Baucus, Hatch, Bradley, Heinz, and Danforth

Exclusion From Income of National Research Service Awards

Present law

Present law, subject to several limitations, provides that gross income does not include amounts received as a scholarship at an educational institution or as a fellowship grant (sec. 117). In general, amounts received from scholarships or fellowship grants are not excludable from gross income if they constitute compensation for past, present, or future services for the grantor. However, amounts received under Federal programs are not disqualified for exclusion merely because the individual recipients agree to perform future services as Federal employees.

The amount excludable as a scholarship or fellowship varies depending on whether the individual recipient is or is not a candidate for a degree. In general, a degree candidate may exclude the entire amount of the scholarship or fellowship grant, unless any portion of the award is regarded to be payment for services in the nature of part-time employment. An individual who is not a candidate for a degree is limited to an exclusion of $300 per month for a period of 36 months.

In 1977, the Internal Revenue Service ruled that awards made under the provisions of the National Research Service Awards Act of 1974 to individuals who, in return for receiving the awards, must subsequently engage in health research or teaching or some equivalent service and must allow the Government to make royalty-free use of any copyrighted materials produced as a result of the research are not excludable scholarships or fellowship grants.[1]

The Revenue Act of 1978 provided that amounts received as National Research Service Awards would be treated as excludable scholarships or fellowship grants under sec. 117. This provision was effective for awards made during calendar years 1974 through 1979. This treatment was extended to awards made in 1980 by Public Law 96-167 and to awards made in 1981 by Public Law 96-541, pending further study.

Issue

The issue is whether the tax treatment of National Research Service Awards as excludable scholarships or fellowship grants should be made permanent.

Explanation of the bill

The bill would treat amounts received as National Research Service Awards after 1981 as amounts received as excludable scholarships or fellowship grants under sec. 117.

Effective date

The provisions of the bill would be effective on enactment.

Revenue effect

It is estimated that the bill would reduce fiscal year budget receipts by $4 million in 1982, $8 million in 1983, $8 million in 1984, $8 million in 1985, and $8 million in 1986.

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[1] Rev. Rul. 77-319, 1977-2 C.B. 48.

5. S. 1923—Senator Matsunaga

Allow Corporate Joint Ventures to Use Annual Accrual Method of Accounting for Corporations Engaged in Farming

Present law

Under present law, the taxable income from farming of a corporation (or a partnership of which a corporation is a partner) generally must be computed using the accrual method of accounting with the capitalization of preproductive period expenses (sec. 447(a)). Preproductive period expenses are expenses (other than interest, taxes, or losses from casualty, drought, or disease) attributable to property having a crop or a yield that are incurred during the preproductive period of such property. The preproductive period for property is generally the period before the disposition of the property or the first marketable crop or yield from the property.

This requirement, however, does not apply to subchapter S corporations, family corporations, or small corporations that meet a gross receipts test. Such corporations, and partnerships which have no other type of corporation as a partner, may use the cash method of accounting and may deduct preproductive period expenses when they are paid. The requirement to use the accrual method with the capitalization of preproductive period expenses also does not apply to the business of operating a nursery or a sod farm or the business of forestry or the growing of timber.

A special rule provides that certain corporations may use the "annual" accrual method of accounting (sec. 447(g)). Under the annual accrual method of accounting, preproductive period expenses are not capitalized, but are deducted currently. Corporations that qualify for this special rule are corporations that raise crops (such as sugar cane) which are harvested at least 12 months after planting. In addition, the corporation must have used the annual accrual method for the 10-year period ending with its first taxable year beginning after 1975, and must have continued to use such method for each taxable year after its first taxable year beginning after 1975.

In the case of a corporation that acquired substantially all the assets of a farming trade or business from another corporation in a transaction in which neither corporation recognized any gain or loss, the acquiring corporation is treated as having used the annual accrual method for the period such method was used by the predecessor corporation to compute the taxable income from the acquired farming business.

Issue

The issue is whether the annual accrual accounting method should be allowed to a qualified partnership when a corporation that uses the annual accrual method contributes its farming business to the partnership in exchange for an interest in the partnership.

Explanation of the bill

Under the bill, a "qualified partnership" generally would be treated the same as a corporation for purposes of the annual accrual accounting rules of section 447(g). Under the bill, a qualified partnership is defined as a partnership in which each partner is a corporation other than a subchapter S corporation or a personal holding company. The qualified partnership would have to meet the same general requirements that apply to corporations under present law. Thus, for example, the qualified partnership would have to be engaged in a farming business in which crops are raised that are harvested at least 12 months after planting.

The qualified partnership would also have to meet the requirement relating to continuous use of the annual accrual method. For this purpose, the bill provides a special rule analogous to the rule for transfers of a farming business from one corporation to another corporation. Under the special rule, if a partner of a qualified partnership has contributed a farming business to the partnership in exchange for a partnership interest, the qualified partnership would be treated as having used the annual accrual method for any period the contributing partner had used such method to compute its taxable income from the business.

Thus, for example, if a corporation that is permitted to use the annual accrual method with respect to a farming business contributes substantially all of the assets of the business to a qualified partnership in exchange for an interest in the partnership, the qualified partnership would be permitted to use the annual accrual method to compute the taxable income from the business.

Effective date

The provisions of the bill would apply to taxable years beginning after December 31, 1981.

Revenue effect

The bill is estimated to result in an insignificant revenue loss.

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